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1997  
annual report

Cameco Corporation



# 1997 overview

Cameco Corporation, with its head office in Saskatoon, Saskatchewan, Canada, is the world's largest publicly traded

*Neil Brown, general foreman, construction and services, and his fellow employees helped increase Cameco's share of uranium production to a record 19 million pounds in 1997.*

uranium company and a growing gold producer. Its Canadian operations include the world's two largest, high-grade uranium mines, located in Saskatchewan and Canada's only uranium processing facilities, located in Ontario. Through its wholly owned American subsidiaries, Cameco obtains uranium from the largest US uranium operation located in Wyoming and another facility in Nebraska. Cameco's uranium products are used to generate electricity in nuclear power plants

around the world, providing one of the cleanest sources of energy available today. The company also has gold mining operations in Saskatchewan and in Kyrgyzstan in Central Asia. Cameco explores for minerals in North America, South America, Australia and Asia.

*Front cover:  
Mine general foreman Jim Bondesen  
is responsible for  
underground  
operations at the  
McArthur River  
project which  
received regulatory  
approval to proceed  
with construction in  
August 1997.*

## Earnings from Operations per Share (\$)

*Earnings from operations increased modestly from the record levels established in 1996, despite low commodity prices.*

4.00

3.00

2.00

1.00

0.00

1995 1996 1997

4.00

3.00

3.37

2.00

1.00

0.00

1995 1996 1997

## Cash Flow per Share (\$)

*Strong cash flows will allow Cameco to finance its next generation of uranium mines.*

4.00

3.00

2.98

2.00

1.00

0.00

1995 1996 1997

## Net Earnings per Share (\$)

*As anticipated, deferred taxes were the primary cause of reduced net earnings in 1997.*

3.00

2.25

2.60

1.50

0.75

0.00

1995 1996 1997

## Uranium Production

(Cameco's share million lbs U<sub>3</sub>O<sub>8</sub>)

*Cameco's record uranium production in 1997 increased 16% over the previous year and accounted for 61% of Canadian production.*

20

15

16.6

10

5

0

1995 1996 1997

15.2

19.3

## McArthur River Project

Saskatchewan, Canada

Cameco received all the regulatory approvals to start construction at the McArthur River project and remains on track to begin production in late 1999. McArthur River is the world's largest known, high-grade uranium deposit.

## Kumtor Operation

Kyrgyzstan

The Kumtor gold operation achieved commercial production and produced more than 500,000 ounces. Cameco is one-third owner of this large gold operation.

## Highland Operation

Wyoming, US

Cameco, through its US subsidiaries, acquired sole ownership of the Highland operation, the largest US uranium producer, as well as a number of exploration properties in the region.

## Highlights

	1997	1996	% Change
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### Financial (\$ millions except per share amounts)

	1997	1996	% Change
Revenue	\$ 642.9	\$ 590.9	+ 9
Earnings from operations	151.0	145.3	+ 4
Net earnings	82.0	137.5	- 40
Cash provided by operations	162.1	177.9	- 9
Per share amounts			
Earnings from operations	2.77	2.75	+ 1
Net earnings	1.51	2.60	- 42
Cash provided by operations	2.98	3.37	- 12
Weighted average number of paid common shares (millions)	54.4	52.8	+ 3
Long-term debt/equity ratio	.08:1	.14:1	- 43

### Production (Cameco share)

Uranium concentrates (million lbs U <sub>3</sub> O <sub>8</sub> )	19.3	16.6	+ 16
Uranium conversion (tU)	12,594	10,127	+ 24
Gold (oz)	202,454	40,375	+ 401

Currency is expressed in Canadian dollars unless otherwise noted.

### A note to shareholders:

Unlike many resource companies, Cameco does not publish production costs, sales volumes or realized prices. The company is one of only a small number of uranium producers in an industry with few buyers. Generally, our competitors—including state-owned enterprises or large companies in which uranium makes only a supplementary contribution to earnings—do not release this information. For Cameco to do so would compromise our competitive position and ultimately, our shareholders' investment.

### Forward-looking statements:

Certain statements contained in this annual report, including information under the headings; to our shareholders, marketing, uranium operations, gold operations, environment and safety and management's discussion and analysis, constitute forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results to differ materially from those expressed or implied by such forward-looking statements. Such factors include among others; volatility and sensitivity to market prices for uranium and gold, competition, the impact of changes in foreign currency exchange rates, environmental risks, political risk arising from operating in certain developing countries, changes in government regulations, and policies including trade laws and policies, demand for nuclear power, replacement of production, receipt of permits and approvals from government authorities as well as other operating and development risks. As a result of the foregoing and other factors, no assurance can be given as to the future results, levels of activity and achievements.



# to our shareholders

"Cameco's solid balance sheet, remarkable deposits, large uranium market share and growth potential, point to a promising future for our company,"  
Bernard Michel,  
Cameco's chair,  
president and chief  
executive officer.

An interview with Bernard Michel, Cameco's chair, president and chief executive officer.

Strong companies use weak markets to capitalize on new opportunities. Growth will come through Cameco's financial strength, operating expertise and a vision to expand.

**Q:** Let's begin with net earnings. Why did they decline by 40% to \$82 million in 1997?

**B. MICHEL:** The decline reflects primarily the requirement to provide for deferred income taxes this year which increased the tax expense to \$65 million in 1997, up from \$5 million in 1996. In addition, net earnings, like revenue, were affected by lower uranium prices, which were partially offset by an increased volume of gold sales.

However, earnings from operations still increased by 4% to \$151 million.

**Q:** What were the highlights of 1997?

**B. MICHEL:** We made excellent progress in securing our future.

First, we acquired Power Resources, Inc. (PRI) and successfully integrated that company into Cameco. PRI represents a major building block in our plan to play an important role in the in situ uranium leach extraction technology and to provide geographic diversification.

Second, Kumtor, our gold mine in Kyrgyzstan, reached commercial production in May and surpassed our planned production for the year by more than 20%, while achieving lower-than-expected unit costs.

Third, we received all the regulatory approvals required to begin construction at the McArthur River project. Construction began in August and is proceeding quickly to prepare for production startup in late 1999. McArthur River will be the world's largest and lowest-cost uranium mine.

Fourth, we received the federal-provincial panel recommendation to proceed with the Cigar Lake project, subject to a number of conditions.

Finally, we set a number of records in 1997.

Revenue exceeded \$640 million and we sold more uranium than ever. Our share of uranium production surpassed 19 million pounds U<sub>3</sub>O<sub>8</sub> and we converted more than 12,000 tonnes of uranium. Our share of gold production increased significantly to about 200,000 ounces.

**Share  
Performance**  
(TSE \$/share)

Cameco's share price in 1997 reflected the general volatility in commodity prices and the stock market.



**Q:** From the beginning of 1997, the uranium spot price fell 31% to a low of \$10.20 (US) per pound U<sub>3</sub>O<sub>8</sub> before recovering to end the year at \$12.05 (US). Why was the uranium spot price so weak?

**B. MICHEL:** The simple answer is that there was more supply than demand in the spot market as many utilities over contracted in 1996. They secured additional volumes of uranium through existing and new long-term contracts ahead of their actual requirements and then were able to avoid the spot market for most of 1997. This resulted in lower demand. In addition, a few suppliers were engaged in aggressive selling. Weak demand and ample supply resulted in a soft spot price, at least for the first eight months of the year. In 1998, because the spot market remains thinly traded, we expect to see continued volatility in the spot price.

**Q:** How much does the uranium spot price affect Cameco?

**B. MICHEL:** Even though Cameco sells only on the long-term market, the spot price affects our existing contracts, as 60% of them have pricing mechanisms which reference the spot price at the time of delivery. This means a typical multi-year contract will most likely yield different prices as we deliver uranium at various times throughout the contract term.

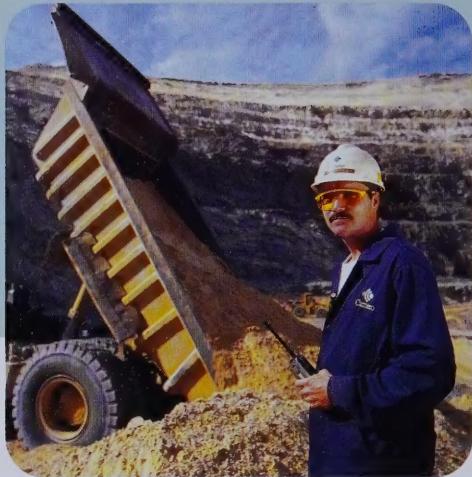
But the spot price also affects the level of fixed prices which are set in some of our new long-term contracts. As such, it is important to remember that some contracts were signed when the spot price was higher than it is today. These fixed prices, once set, do not fluctuate with the spot prices at the time of delivery.

So, while 60% of the volumes under contract are affected by movements in the spot price, 40% are not. Cameco neither receives all the benefits of an increase in the spot price, nor suffers all the downside.

**Q:** There has been much speculation about the future of nuclear power in the last year. Some Asian countries with nuclear power are facing economic difficulties. What is the expected impact on their programs?

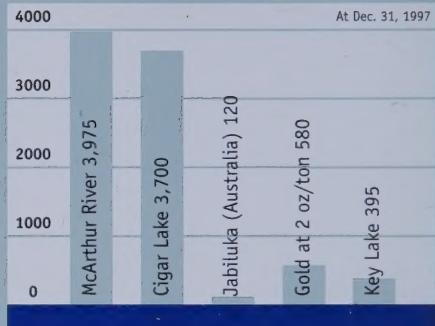
**B. MICHEL:** We do not believe that the economic problems in Asia will affect their current nuclear programs. These countries will still need electricity, particularly from nuclear power plants which are typically large and almost always used to provide base-load generating capacity.

For example, nuclear power contributes about one-third of Japan's electrical requirements. That would be very difficult to replace. In addition, many Asian countries are committed to nuclear power after making large investments in infrastructure, training and technology to develop their programs.



**Value of Reserves**  
(US\$ per tonne of ore)

The ore at McArthur River and Cigar Lake together averages more than \$3,800 (US) per tonne due to the exceptionally high ore grade.



Therefore, our 10-year outlook for uranium consumption has not changed significantly.

Beyond that, planned reactors may be delayed, along with other

Lorne Courouble stands in front of a 50-ton dump truck depositing sand used to construct a pervious surround envelope around the tailings facility at Key Lake's Deilmann pit.

capital projects. However, it is unlikely that any final decisions regarding energy options for the next few decades will be made on the basis of recent currency problems.

**Q:** In the United States, the largest uranium market, deregulation has caused a number of plants to shut down. How will this affect the demand for uranium?

**B. MICHEL:** Even with the closures, the United States has more than 100 nuclear plants supplying better than 20% of their electricity needs. That is a lot of electricity. And yes, some of these will close due to deregulation, when more attractive sources of electricity are available, or because they reach the end of their operating licences. But other nuclear plants may be purchased by successful nuclear plant operators who recognize nuclear power can be competitive.

Deregulation will require that the remaining reactors operate for longer periods of time and more efficiently. This will increase capacity utilization and uranium consumption.

Even if there are more closures, there will remain a core demand for uranium in the United States. In our 10-year forecast, we have always assumed that the United States would have no growth in nuclear power and that some plants would shut down.

**Q:** Given all this, what confidence do you have that there will be a market for Cameco's uranium in the next 10 to 20 years?

**B. MICHEL:** Despite some of the concerns raised about nuclear power, the fact remains that there are more than 400 reactors operating and producing about 17% of the world's electricity. This would be difficult to replace and would require enormous amounts of new capital. That is as much electricity as all the hydroelectric power stations in the world taken together.

In addition, I am convinced that as the world examines its energy options for the future, it will eventually take a balanced approach in which nuclear power will play an important role and new plants will be built. Why?

First, because nuclear power does not contribute to air pollution. This is becoming increasingly important. This was reinforced by the conclusions of the United Nations conference on global warming in Kyoto which pointed to a need for energy sources that do not contribute to air pollution.

Second, with the advancement of new reactor designs, nuclear facilities will be easier and quicker to build and less complicated to run.

### Comparative Return

Cameco's return to shareholders continues to outpace the TSE 300 in the long term.



**Q:** Let's move to company developments. In August, the company issued 4 million shares.

Where will Cameco invest the proceeds?

**B. MICHEL:** The equity issue is one building block which provides the company with financial flexibility to pursue long-term growth. Another is the new \$400 million revolving line of credit that was put into place in February 1998. As we plan Cameco's future over the next 10 to 20 years, we need to ensure that we have the means to capitalize quickly on growth opportunities, particularly in our core business, the nuclear business.

**Q:** In November, the federal-provincial panel reviewing the Cigar Lake project raised concerns about the project's mill operator. As the majority owner, what are you doing to ensure that the project moves ahead?

**B. MICHEL:** We have received the panel recommendation to proceed with mine development, subject to certain conditions. This is a positive step. We believe we can resolve the outstanding issues. A suitable disposal location for waste rock at the mine must be found—we are working on that now.

The other issues deal with the tailings management at the McClean Lake facility where we plan to mill the Cigar Lake ore. We are confident that the mill operator, Cogema, can work with the regulators to resolve the issues that are still outstanding. Cogema has had many successful years of operating experience in Saskatchewan and elsewhere in the world. Cameco will look after its interests in the project and ensure that all these issues are dealt with appropriately.

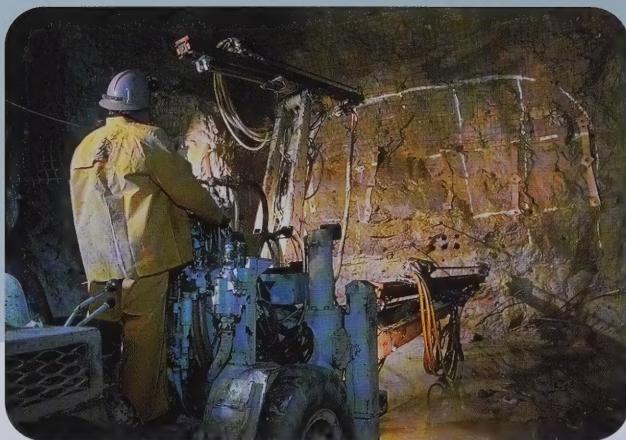
**Q:** Your negotiations with respect to the uranium derived from Russian highly enriched uranium ended in December. Why did this occur and how will this affect the uranium market?

**B. MICHEL:** Cameco and two western partners had signed a detailed memorandum of understanding (MOU) with the Russian Ministry of Atomic Energy (MINATOM) to purchase some of the natural uranium displaced as a result of the dismantling of Russian nuclear weapons. The MOU covered such issues as contract length, pricing, quantities to be sold, quantities to be returned to Russia and so on.

Now, why did the negotiations break down? I would say there were many conditions and points that were discussed and debated. But for Cameco, the breaking point was the inability to obtain a formal Russian government guarantee and approval of the final 10-year agreement.

With the negotiations derailed, we are back to where we were before the MOU was signed, or possibly, even in a more favorable situation.

Russia has indicated that they wish to sell the material in the long-term market and at higher than current market prices. In addition, MINATOM has stated that it has reached an agreement with the Russian government to extend the payment period. This should alleviate some of the pressure to sell it quickly,



A jumbo drill operator is shown underground at McArthur River where nearly three

kilometres of tunnels were developed in 1997.

At full capacity, the McArthur River and Cigar Lake projects will enhance the company's performance.

even at distress prices, in the market.

I would add that the sale of this material is limited by quotas in the United States—the largest market—and by informal restrictions in Europe, the second largest market.

For all these reasons, we continue to believe that this material can be introduced into the market in a non-disruptive manner. We should not lose sight of the fact that it will be needed very soon to help fill the large gap between supply and demand.

While all of this had no immediate impact on Cameco, as we had not yet spent any funds on the deal, there is certainly a loss of a commercial opportunity and of an additional source of uranium for the company. We will continue to look for other opportunities to expand our supply base.

**Q:** Let's switch to gold. Does Cameco's strategy to diversify into gold make sense now that the gold price is so low?

**B. MICHEL:** This may be the best time to build Cameco's portfolio of reserves. First, let me say that because gold is not our core business, we are not in a race to replace reserves, unlike other gold producers. We have the luxury of looking at only the best opportunities. Any future gold properties will have to compare favorably with our Kumtor mine.

Kumtor has provided a solid base for our gold business. We expect Cameco's share of production to average some 175,000 ounces annually in the next few years at a cash cost below \$200 (US) per ounce.

**Q:** Why diversify at all?

**B. MICHEL:** While I appreciate that some investors prefer what is referred to as a "pure play" in a single commodity, our present view is that such positioning limits the number of opportunities available and thus the potential for growth. And it may increase volatility in the stock price due to the risks inherent in a single commodity company.

**Q:** Why would investors put their money into Cameco?

**B. MICHEL:** Cameco operates in two sectors—uranium and gold—sectors which did not do well last year and still are not performing well today. But the longer-term prospects for these commodities are stronger than the short-term reality might imply. Uranium prices are held back by excess inventories, but the long-term supply and demand picture still looks favorable as new production will be needed to meet anticipated demand. Gold is awaiting key central bank decisions, among other factors, but the history of its cycles of strength and weakness makes us confident that better days will return.

# Cameco is diversifying into gold in a strategic move to secure earnings from another commodity and provide growth for the company.

In this tentative environment, Cameco has the resources to outperform its competitors because of several strengths.

One, we have financial strength such as a low debt level and access to a \$400 million credit facility.

Two, we have management strength. Our track record demonstrates that we can grow the company. Production has grown by 25% to more than 19 million pounds U<sub>3</sub>O<sub>8</sub> in the nine full years since Cameco was created and our market share has grown from 9% to about 15% of western world uranium consumption.

Not only are we growing, but we have been consistently profitable—year after year—in spite of extended periods of unfavorable uranium market conditions. One only has to look at our competitors in the uranium and gold industries and our peers in the base metals for comparison.

Three, we have extraordinary assets which give us access to low-cost production. This will provide us with continued strong cash flows, even through periods of weak prices.

And four, by themselves, McArthur River and Cigar Lake, at full capacity, will improve the company's future performance.

Periods of difficult markets often come with great opportunities for those companies which possess vision and strength. Growth will come through Cameco's conservative and focused approach to managing its affairs. Simply put, we believe that we are a quality company currently facing an unsettled period in our core business which has excellent long-term prospects.

**Q: And where is Cameco going? What is your long-term strategy?**

**B. MICHEL:** We plan to increase our share of the western world uranium market from about 15% to 20%.

We plan to maintain our share of the uranium conversion business and to integrate further into the fuel cycle where our expertise in fluorinated components and uranium metal production, for instance, can be shared with strategic partners.

We plan to expand our gold production but in a conservative manner.

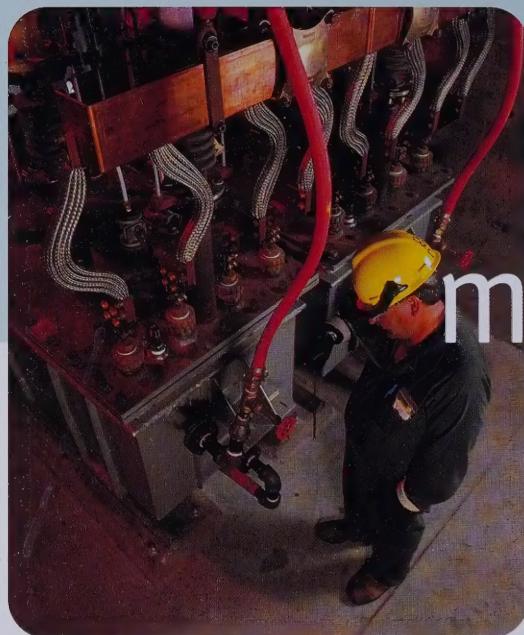
Achieving these growth objectives and the increased profitability which our shareholders expect from us calls for a dynamic, yet cautious, management team and for motivated, knowledgeable employees who share in our corporate vision.

I believe we have these resources and that we are well on track to achieve our objectives.



Kumtor's 14,500  
tonne-per-day mill  
achieved commer-  
cial production in  
May 1997.

February 20, 1998



# marketing

*Port Hope operator*

*Elwood Adams checks an electrolytic cell which is used to generate fluorine gas necessary for UF<sub>6</sub> production. After further processing elsewhere, UF<sub>6</sub> is converted to make fuel used in most reactors around the world.*

## Overview

Cameco is an integrated supplier of uranium concentrates ( $U_3O_8$ ) and conversion services to electric utilities around the world.

$U_3O_8$  must be upgraded in a series of steps to make it suitable for nuclear fuel. It is first refined and then converted to natural uranium hexafluoride ( $UF_6$ ) or natural uranium dioxide ( $UO_2$ ). Cameco is involved in these stages of nuclear fuel supply.

$UF_6$  is the form of uranium required for processing at enrichment plants. Following enrichment,  $UF_6$  is converted to enriched  $UO_2$  and then fabricated into fuel for the majority of the world's nuclear plants, which are light-water reactors.

Natural  $UO_2$  is made into fuel for use in heavy-water reactors such as the Candu reactors.

## Nuclear Power

The only significant commercial use for uranium concentrates is to fuel nuclear power plants for the generation of electricity. There are more than 400 nuclear reactors operating today, generating about 17% of the world's electricity. The largest market is the United States which accounts for about 25% of all operating reactors.

## Sales

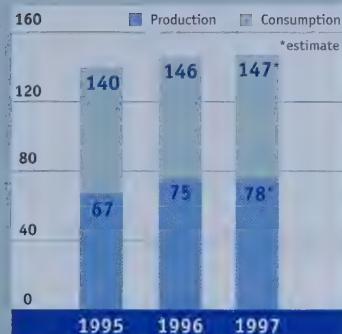
In the western world, approximately 85% to 90% of all uranium is sold under long-term contracts which typically provide for deliveries to begin one to three years after signing and continue for several years thereafter. The remaining 10% to 15% is sold on the spot market for delivery within 12 months of signing.

The long-term market is significantly more important to Cameco than the spot market and, for the ninth consecutive year, Cameco sold exclusively on the long-term market.

## Western World Market Activity

(million lbs U<sub>3</sub>O<sub>8</sub>)

Uranium consumption continues to outpace production by about 50%.



## Western World Contract Volumes

(million lbs U<sub>3</sub>O<sub>8</sub>)

The long-term market accounted for three-quarters of the uranium contracts in 1997.



Cameco's U<sub>3</sub>O<sub>8</sub> deliveries were almost 5% higher in 1997 compared to 1996 and the company maintained its approximate 15% share of the western world market. Sales of conversion services declined by about 8% from 1996.

Looking further ahead, Cameco's marketing team enjoyed a successful year, concluding contracts for about 32 million pounds U<sub>3</sub>O<sub>8</sub> for deliveries extending well into the next decade. This represents an increase of 3% over volumes contracted in 1996.

Cameco has more than 100 million pounds U<sub>3</sub>O<sub>8</sub> and more than 50,000 tonnes of uranium conversion services contracted for delivery over the long term.

Cameco offers many benefits to its customers, including competitive pricing, security and diversity of supply, "one-stop shopping" for its two advanced nuclear products (UF<sub>6</sub> and UO<sub>2</sub>) and flexible contract terms. The company continues to strive to provide outstanding value to its customers and remain a supplier of choice.

## Uranium Market Developments

**URANIUM SPOT MARKET** In 1997, after falling by 31% to \$10.20 (US) per pound, the spot price rebounded by \$1.85 to end the year at \$12.05 (US). This compares to 1996, when the spot price increased by 35% in the first half of the year to \$16.50 (US) per pound U<sub>3</sub>O<sub>8</sub>, before falling \$1.80 to end the year at \$14.70 (US).

During the first part of 1997, spot demand was weak because some utilities had covered their 1997 requirements under long-term contracts entered into in 1996, while others eliminated their need to purchase on the spot market by exercising upward flexibility under existing long-term contracts. Distress selling by a few suppliers into a reduced market demand resulted in depressed spot prices for the first eight months of the year.

In the latter half of the year, the spot market became more active and by year end almost 21 million pounds U<sub>3</sub>O<sub>8</sub> were sold, up about 7% from 1996.

Spot price movements have an effect on future production and consequently on the longer-term sources of supply. While there is no shortage of uranium in the ground, the timing of new mines is

### KEY MARKET DEVELOPMENTS

- Prices fell for both U<sub>3</sub>O<sub>8</sub> and UF<sub>6</sub> conversion services
- Russia decided to sell highly enriched uranium on its own
- US Department of Energy sold excess uranium
- Ontario Hydro announced temporary shutdown of seven reactors
- Deregulation of electricity industry impacted nuclear power
- Inventory drawdown continued

**Uranium Price Comparison**  
(annual average  
\$US/lb U<sub>3</sub>O<sub>8</sub>)

Cameco typically receives a higher uranium price by contracting in the long-term market where utilities look for security of supply.



**The Canadian Export Price**

The average price of uranium from Canada, delivered by Canadian companies to their export customers. More than 99% of these deliveries were under long-term contracts.

**Nuexco Exchange Value**

A uranium spot market price indicator. Spot market deliveries are scheduled within one year of the transaction date.

critical. Prices will have to improve to provide producers with sufficient return to justify investment in new mine facilities.

**LONG-TERM URANIUM MARKET** Long-term contract price indicators published in the industry fell by as much as 23% to \$11.50 (US) per pound U<sub>3</sub>O<sub>8</sub> before recovering to end the year at \$12.50 (US) per pound. The long-term market remained moderately active with 72 million pounds U<sub>3</sub>O<sub>8</sub> contracted in 1997 for delivery over multiple years. In 1996, this volume was much higher at 116 million pounds because many utilities over contracted.

**UF<sub>6</sub> CONVERSION MARKET** Spot and long-term prices for UF<sub>6</sub> conversion services weakened in the last quarter of 1997 due to the anticipation of excess supply from the conversion component of the uranium displaced as a result of the dismantling of Russian weapons.

**RUSSIAN HIGHLY ENRICHED URANIUM** In August 1997, Cameco and two western companies signed a memorandum of understanding (MOU) with the Russian Ministry of Atomic Energy (MINATOM). This MOU covered the purchase of a portion of the uranium derived from dismantling Russian nuclear weapons. Cameco expected its share to be as much as 80 million pounds over a 10-year period.

Since the uranium is owned by the Russian state and the agreement contemplated a 10-year term, Cameco and the other western companies insisted on a number of assurances, including that the agreement would receive the official sanction of the Russian government and that it would be enforceable for the full contract term.

Positions taken by the Russian negotiators, including a proposed change in the selling parties, made the above assurances unattainable. Regrettably, this impasse could not be resolved and the negotiations were suspended in December.

The uranium derived from the dismantling of nuclear weapons has long been accounted for in the supply and demand forecasts of the uranium industry. This uranium continues to be subject to trade restrictions and quotas—limiting the volumes that can be sold in the United States and Europe.

Cameco continues to believe that this material will be incorporated into the market in a non-disruptive fashion and will be needed to help fill the expected gap between future supply and demand.

**US DEPARTMENT OF ENERGY (DOE) SALE OF EXCESS URANIUM** The US DOE announced in 1996 that it was planning to sell excess uranium. The expectation that the DOE was going to auction the material contributed to the downward pressure on uranium prices during 1997. When it was finally auctioned in August, the DOE received bids totalling six times the 1 million pounds U<sub>3</sub>O<sub>8</sub> that it was offering and

Cameco has more than 100 million pounds U<sub>3</sub>O<sub>8</sub> and more than 50,000 tonnes of uranium conversion services contracted for delivery over the long term.

obtained higher-than-market prices for the uranium. The sale marked the beginning of the spot price recovery in 1997.

**ONTARIO HYDRO ANNOUNCES REACTOR CLOSURES** Ontario Hydro shocked the industry by announcing plans to temporarily close seven of its 19 operating reactors by the second quarter of 1998. These closures are in response to a study commissioned by the utility to evaluate its management and operations. Ontario Hydro reported that it plans to restart the reactors after the concerns identified in the study have been satisfactorily addressed.

The impact of Ontario Hydro's closure is a decrease of about 4,600 MWe (about 30% of its nuclear capacity) and represents a decrease of about 1 million pounds U<sub>3</sub>O<sub>8</sub> in its annual requirements. This compares to western world uranium consumption of 147 million pounds U<sub>3</sub>O<sub>8</sub> in 1997.

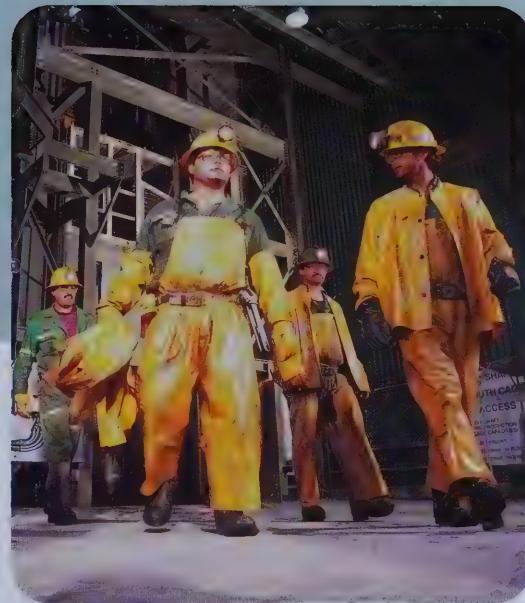
**Deregulation of the Electrical Utility Industry** Deregulation of the utility industry, particularly in the United States, is expected to impact the nuclear fuel market and other fuels for years to come. There are both negative and positive implications for nuclear power arising from deregulation.

Some reactors may face premature shutdown if their owners are unable to lower or control costs. In 1997, two US reactors were shut down permanently (942 MWe) due to economic reasons. In early 1998, Commonwealth Edison, the largest private operator of nuclear plants in the United States, announced two reactors (2,080 MWe) would be closed because they were too costly to refurbish in a deregulated industry. Together, these four plants totalling 3,022 MWe constitute about 1.4 million pounds U<sub>3</sub>O<sub>8</sub> of annual demand or almost 1% of the western world uranium consumption.

Some analysts have speculated that as many as 10 to 15 reactors could be shut down in the United States over the next decade.

However, deregulation has also had a positive effect on the uranium market. Over the past several years, reactors have been operating better and capacity utilization continues to increase. This improvement is in large part a response to the increased competitive pressure to produce electricity more efficiently. As capacity utilization increases, reactors consume more uranium.

In addition, a number of utility companies have indicated that they want to acquire and operate nuclear plants because they believe that nuclear power can be competitive. British Energy and PECO Energy have established a jointly owned company, AmerGen, to purchase and operate nuclear power plants.



Contracted underground miners leave the shaft after completing their shift at McArthur River which will be the world's largest uranium mine when production begins.



**INVENTORY DOWNDRAW** The drawdown of excess western world inventory held by utilities, producers and governments was in the range of 40 to 45 million pounds U<sub>3</sub>O<sub>8</sub> in 1997.

## World Uranium Production

In 1997, world production remained unchanged at about 93 million pounds U<sub>3</sub>O<sub>8</sub>. Western world production increased by 4% to about 78 million pounds in 1997.

Canada increased production marginally to about 31 million pounds U<sub>3</sub>O<sub>8</sub> and Australia's production rose by more than 10% to approximately 14 million pounds. Meanwhile, production from the CIS (Commonwealth of Independent States) declined by 8% to an estimated 14 million pounds U<sub>3</sub>O<sub>8</sub> in 1997. Uranium production in the United States fell by about 8% to less than 6 million pounds U<sub>3</sub>O<sub>8</sub>.

## Uranium Market Outlook

The uranium market outlook remains positive. A look at the next decade shows that new mine development is needed to meet expected uranium requirements.

**CONSUMPTION** Over the 10-year period from 1998 to 2007, cumulative world consumption is expected to total 1.8 billion pounds U<sub>3</sub>O<sub>8</sub>. Of that, western world consumption accounts for about 86%. These figures reflect the company's best estimate after taking into account the anticipated reactor closures discussed above. Overall, uranium requirements are estimated to grow about 1% compounded annually.

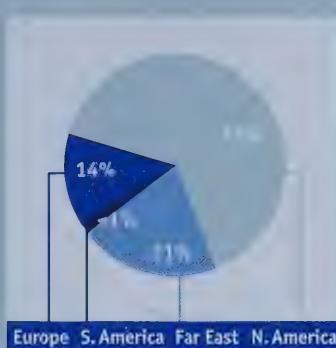
Cameco does not expect the current economic issues in Asia to impact the 10-year outlook for nuclear power generation. Beyond that horizon, the currency problems in Asia will most likely delay some reactors in the planning stages. Demand for electricity is expected to grow, with nuclear power generation continuing to play a major role. The fact that it does not cause air pollution is becoming increasingly important given the commitments made by developed countries to reduce greenhouse gas emissions at the December 1997 United Nations Kyoto conference on global warming.

It is assumed that the CIS and Eastern European countries will fill their uranium requirements from domestic sources or Russian inventories, while western world requirements will be filled by a number of different sources.

**SUPPLY** The largest source of supply comes from existing western world mines. This includes operating mines, expansions proposed at existing mines and new mines which are constructed but waiting for final approvals.

**1997 Nuclear Revenue**  
**(by region)**

*North America  
remains the largest  
source of Cameco's  
nuclear revenue.*



Existing western mines will be able to fill only 40% of western requirements over the next 10 years because a number of these mines will deplete their reserves. Cameco's Key Lake and Rabbit Lake mines are expected to exhaust their reserves, removing about 26 million pounds U<sub>3</sub>O<sub>8</sub> annually from the supply side.

Another source of supply is reprocessing of spent fuel which is expected to contribute less than 5% of western requirements over the period.

Production from the CIS and China, plus CIS inventory, are anticipated to hold relatively stable and supply more than 12% of western requirements over the decade.

Uranium derived from the dismantling of nuclear weapons from Russia and the United States is expected to provide more than 11% of the western world's requirements over the decade.

Excess western inventories are expected to be drawn down over the period.

Even with all these sources of supply, new mines are needed to fill the gap between supply and demand.

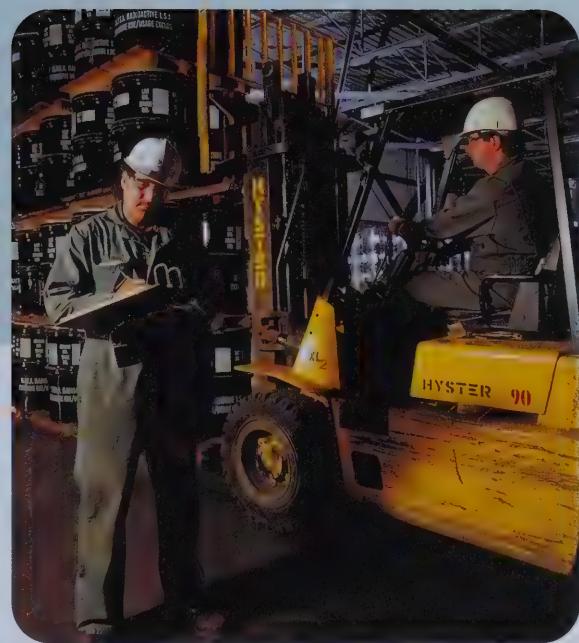
Cameco expects McArthur River and Cigar Lake to provide almost 60% of the new uranium supply needed when they reach full production.

The remaining new mine uranium production is likely to come from Canada, Australia and the United States.

Cameco believes that uranium prices must rise significantly above the 1997 level to provide an adequate return to producers intending to build new mines. It is this need for new mine supply that is expected to put upward pressure on the uranium price over the 10-year period.

## Conclusion

In a world of much smaller, lower-grade deposits, Cameco will continue to be a uranium market leader, given its extraordinary reserves which are the largest and highest-grade known to the world today. The company's exceptional reserves and reliable production will provide its customers with competitive and secure long-term supply for the foreseeable future.



*At the Blind River refinery, operators Jeff Bissaillon and Tom Galloway receive incoming drums of uranium from Cameco's mining operations, as well as from other Canadian and foreign producers.*



# uranium operations

*Chemical technician Lori Burnouf analyses the purity of uranium concentrates from the Rabbit Lake mill which produced 12 million pounds in 1997—the most in its 23-year history.*

from the Highland uranium operation in Wyoming and almost one-third of the uranium production from the Crow Butte operation in Nebraska.

Cameco's share of uranium from these facilities accounts for nearly 20% of the world's total output.

Cameco is an integrated, value-added uranium producer that owns and operates refining and conversion plants in Ontario.

The corporation's future is secured by a controlling interest in both McArthur River and Cigar Lake, the two largest uranium projects in the world, located in northern Saskatchewan. Cameco's share of reserves and resources from these deposits is more than 400 million pounds U<sub>3</sub>O<sub>8</sub> with an average grade of about 15%.

## Current Mines

**KEY LAKE** Key Lake maintained its status as the largest uranium operation in the world, with a total output of 14.1 million pounds U<sub>3</sub>O<sub>8</sub> in 1997. Cameco's share was 9.4 million pounds.

With the completion of mining activity in May, the mining crew and equipment were deployed to McArthur River to excavate the site for the second shaft.

Following that they focused on assisting with the Key Lake revegetation program and construction of the drainage system in the mill tailings management facility.

**RABBIT LAKE** Record output of 12.0 million pounds of U<sub>3</sub>O<sub>8</sub> was achieved at the Rabbit Lake operation in 1997, up 16% from 1996. Cameco's share was 8.0 million pounds.



### Athabasca Basin

*The Athabasca Basin in northern Saskatchewan is the focus of exploration for high-grade uranium deposits.*

Collins Bay A-zone open pit was mined in 1996 and 1997 and recovered more than 17.3 million pounds of U<sub>3</sub>O<sub>8</sub>, exceeding the forecast by 2.2 million pounds due to the recovery of 40,000 more tonnes of ore than expected.

**POWER RESOURCES, INC. AND GEOMEX MINERALS INC.** All current and future in situ leach (ISL) activities are and will be developed by these wholly owned subsidiaries. ISL is an extraction process with minimum environmental impact suitable for certain low-grade uranium ore deposits.

Cameco completed its acquisition of Power Resources, Inc. including 74.25% of the Highland ISL

In 1997, production records were set at Rabbit Lake, Highland, Blind River and Port Hope.



operation, in 1997. The remaining interest in Highland was subsequently purchased by Geomex Minerals Inc.

In 1997, the Highland operation in Wyoming achieved record annual production of 1.6 million pounds U<sub>3</sub>O<sub>8</sub>. The operation also reached a 10-year, 10 million pound U<sub>3</sub>O<sub>8</sub> production milestone by year end. Highland is the largest uranium operation in the United States.

Licensing and development work continues at PRI's Gas Hills project near Riverton, Wyoming with production planned to begin in 2000.

## Future Mines

**McARTHUR RIVER** Cameco is proceeding with the construction of the McArthur River project. Cameco received government approval in May 1997 and construction licences by August 1997.

Underground development on the 530 and 640 metre levels below the surface is under way and freeze-hole drilling is scheduled to begin early in 1998. Some 100 freeze holes are planned and will take about a year to complete.

Because the average ore grade at McArthur is 15% U<sub>3</sub>O<sub>8</sub>, Cameco plans to mine the orebody using non-entry mining methods. The ore will be transported 80 kilometres to the existing Key Lake uranium operation for milling. The new road from McArthur River to Key Lake, which is now in use, will be completed in the spring of 1998.

Sinking the primary exhaust ventilation shaft to the 530 metre level began in 1997. The contract was awarded to a joint venture between Mudjatik Enterprises Inc. and Thyssen Mining Construction of Canada and represents the first time that an aboriginal joint venture has been awarded a contract for the sinking of a mine shaft in Canada.

Development activity at McArthur River is on schedule and on budget with uranium production targeted to begin late in 1999 after obtaining all necessary operating licenses. The mine is expected to produce 18 million pounds U<sub>3</sub>O<sub>8</sub> annually at full production. Cameco's share of annual production will be more than 10 million pounds.

**CIGAR LAKE** The joint federal-provincial panel recommended in November 1997 that the Cigar Lake project be approved once a disposal location for mine waste rock is identified and changes are made to the tailings management facility. Subject to regulatory approvals and operating licences, it is anticipated that production will begin at Cigar Lake in 2001. Cameco's share of the 18 million pounds U<sub>3</sub>O<sub>8</sub> a year at full production will be almost 9 million pounds.

At Key Lake, mine maintenance foreman Fred Misiwiche ensures a variety of equipment is repaired and maintained.



## Midwestern US

Cameco's US uranium activities provide the company with expertise in the in situ leach extraction technology and geographic diversification.



## Uranium Mining <sup>1</sup>

	Key Lake <sup>2</sup>		Rabbit Lake <sup>2</sup>		Highland <sup>3</sup>		Crow Butte <sup>4</sup>	
	1997	1996	1997	1996	1997	1996	1997	1996
Tonnes milled	315,282	321,083	373,862	260,666	N/A	N/A	N/A	N/A
Production (million lbs U <sub>3</sub> O <sub>8</sub> )	14.1	14.1	12.0	10.3	1.6	1.2	0.8	0.8
Recovery (%)	97.70	97.90	95.26	97.29	N/A	N/A	N/A	N/A
Average mill head grade (% U <sub>3</sub> O <sub>8</sub> )	2.09	2.03	1.52	1.86	N/A	N/A	N/A	N/A
Reserves at year end <sup>5</sup> (million lbs U <sub>3</sub> O <sub>8</sub> )	24.4	40.5	43.5	47.9	8.8	10.3	12.0	12.8
Employees (Cameco-operated sites)	316	395	285	281	59	58	N/A	N/A

<sup>1</sup> Total production for the year ending December 31.

<sup>2</sup> Key Lake and Rabbit Lake ownership: Cameco (66.67%); Uranerz Exploration and Mining Limited (33.33%). Located in northern Saskatchewan. Cameco is operator.

<sup>3</sup> Highland ownership: Power Resources, Inc. (PRI), a wholly owned US subsidiary of Cameco (74.25%); Geomex Minerals Inc., a wholly owned US subsidiary of Cameco (25.75%). Cameco acquired its ownership in the operation in 1997. Since Highland processes in situ leach reserves in Wyoming, not all comparisons with Saskatchewan uranium operations are applicable. PRI is operator.

<sup>4</sup> Crow Butte ownership: Geomex Minerals Inc., a wholly owned US subsidiary of Cameco (32.309%); Uranerz USA Inc. (57.691%); Kepco Resources America Ltd. (10.00%). Since Crow Butte processes in situ leach reserves in Nebraska, not all comparisons with Saskatchewan uranium operations are applicable. Crow Butte Resources, Inc. is operator.

<sup>5</sup> For further information, see the reserve tables on pages 18 and 19.

## Fuel Services

Cameco owns and operates refining and conversion plants in Ontario. At Blind River, Cameco operates the world's largest uranium refinery which produces high-purity uranium trioxide (UO<sub>3</sub>). With the Port Hope conversion plants, Cameco is one of four western world commercial suppliers of uranium hexafluoride (UF<sub>6</sub>), which, after further processing, becomes the fuel used in most nuclear reactors. In addition, Cameco is the only commercial converter of natural uranium dioxide (UO<sub>2</sub>), the fuel used in Candu reactors.

In 1997, the Blind River refinery established a UO<sub>3</sub> production record of 12,195 tonnes uranium. Port Hope achieved the highest level, in Cameco's history, of combined UF<sub>6</sub> and UO<sub>2</sub> production of 12,594 tonnes uranium.

A multi-year effort to synchronize Cameco's emergency response procedures with major industry and the town of Port Hope culminated in 1997 with the creation of a community awareness and emergency

## Cameco's uranium exploration activity encompassed about 2.6 million hectares in 1997.

response organization. This strategic group links the emergency response capabilities of industry with the town of Port Hope.



**TECHNOLOGY DEVELOPMENT AND SPECIAL PROJECTS** Cameco's technology development division, which was restructured in 1996, made solid progress improving the operating capacities of the refinery and conversion plants. In addition, they advanced on projects dealing with new technology, including a contribution to the atomic vapor laser isotope separation (AVLIS) project.

AVLIS is a new uranium enrichment process being developed by the United States Enrichment Corporation (USEC). Enrichment is an essential step in the process of making nuclear fuel out of natural uranium for light-water reactors. Cameco and USEC have formed a partnership to develop the technology necessary to convert natural uranium into feed for this AVLIS project.

In 1997, the AVLIS feedstock development work progressed sufficiently to allow the technical demonstration phase to take place in 1998. Following the completion of that phase, the technical and commercial evaluation of an AVLIS feed plant will begin, as will site selection for that plant.

This partnership with the world's largest enrichment company ensures that Cameco will remain a vital part of any advancements made in enrichment technology and consolidates our position in the conversion market.

*Geologist Sandra Foster looks for indications of uranium in core samples taken from the Rabbit Lake area.*

### Fuel Services

	Blind River <sup>1</sup> (UO <sub>3</sub> )		Port Hope <sup>1</sup> (UF <sub>6</sub> and UO <sub>2</sub> )	
	1997	1996	1997	1996
Production (tU)	12,195	10,190	12,594	10,127
Cameco employees	102	90	277	257

<sup>1</sup> Cameco is operator and owns 100%.

## Uranium Exploration

Cameco's international exploration projects are managed from head office in Saskatoon, Saskatchewan. In 1997, exploration activities concentrated on developing projects in Saskatchewan and Australia to support the corporation's long-term objective of maintaining its status as a leading supplier of uranium.

Total Cameco-controlled and Cameco-partnered land holdings as of December 31, 1997 were

## Total Uranium Reserves and Resources

<b>Underground, Open Pit and In Situ Leach</b> (as of December 31, 1997)	<b>Total</b> (million lbs U <sub>3</sub> O <sub>8</sub> )	<b>Cameco's Share</b> (million lbs U <sub>3</sub> O <sub>8</sub> )
Total Reserves	659.2	364.1
Total Resources	414.2	270.0

## Uranium Reserves and Resources

<b>Underground and Open Pit</b> <sup>1</sup> (as of December 31, 1997)	<b>Mining Method</b> <sup>2</sup>	<b>Tonnes</b> (thousands)	<b>Grade</b> (% U <sub>3</sub> O <sub>8</sub> )	<b>Total</b> (million lbs U <sub>3</sub> O <sub>8</sub> )	<b>Cameco's Share</b> (million lbs U <sub>3</sub> O <sub>8</sub> )
<b>Reserves</b>					
Cigar Lake <sup>3</sup>	UG	1,176	13.60	353.3	172.2
Key Lake <sup>4</sup>	OP	854	1.30	24.4	16.3
McArthur River <sup>5</sup>	UG	457	18.74	188.7	105.4
Rabbit Lake <sup>6</sup>					
Collins Bay A-zone <sup>7</sup>	OP	105	5.72	13.3	8.9
Collins Bay B-zone <sup>7</sup>	OP	220	0.32	1.5	1.0
Eagle Point <sup>8</sup>	UG	1,243	1.05	28.7	19.1
<b>Total Reserves</b>		<b>4,055</b>	<b>6.82</b>	<b>609.9</b>	<b>322.9</b>
<b>Resources</b>					
Dawn Lake <sup>9</sup>	UG	601	1.68	22.3	12.1
McArthur River <sup>5</sup>	UG	859	12.02	227.8	127.2
Rabbit Lake <sup>6</sup>					
Eagle Point <sup>8</sup>	UG	428	1.11	10.5	7.0
<b>Total Resources</b>		<b>1,888</b>	<b>6.26</b>	<b>260.6</b>	<b>146.3</b>

<sup>1</sup> All deposits in northern Saskatchewan.

<sup>2</sup> Mining method is either underground (UG) or open pit (OP).

<sup>3</sup> Cigar Lake ownership: Cameco (48.75%; voting 50.75%); Cogema Resources Inc. (36.375%); Idemitsu Uranium Exploration Canada Ltd. (7.875%); TEPCO Resources Inc. (5%) and Korea Electric Power Corporation (2% non-voting). In 1997, TEPCO acquired a 5% interest from Idemitsu. Cigar Lake Mining Corporation is operator.

<sup>4</sup> Key Lake ownership: Cameco (66.67%); Uranerz Exploration and Mining Limited (33.33%). Cameco is operator. All Key Lake reserves are ore in stockpile.

<sup>5</sup> McArthur River ownership: Cameco (55.844%); Uranerz Exploration and Mining Limited (27.922%); Cogema Resources Inc. (16.234%). Cameco is operator.

<sup>6</sup> Rabbit Lake ownership: Cameco (66.67%); Uranerz Exploration and Mining Limited (33.33%). Cameco is operator.

<sup>7</sup> Collins Bay A and B-zone reserves are ore in stockpile.

<sup>8</sup> Approximately 22% of Eagle Point reserves is ore in stockpile.

<sup>9</sup> Dawn Lake ownership: Cameco (54.136%); Cogema Resources Inc. (21.746%); PNC Exploration (Canada) Ltd. (19.448%); Korea Electric Power Corporation (4.67%). Cameco is operator.

## Uranium Reserves and Resources <sup>1</sup>

In Situ Leach (as of December 31, 1997)	Total (million lbs U <sub>3</sub> O <sub>8</sub> )	Cameco's Share (million lbs U <sub>3</sub> O <sub>8</sub> )
<b>Reserves</b>		
Crow Butte <sup>2</sup>	12.0	3.9
Gas Hills <sup>3</sup>	18.2	18.2
Highland <sup>4</sup>	8.8	8.8
Leuenberger <sup>3</sup>	2.5	2.5
Peach <sup>5</sup>	3.9	3.9
Ruby Ranch <sup>3</sup>	3.9	3.9
<b>Total Reserves</b>	<b>49.3</b>	<b>41.2</b>
<b>Resources</b>		
Bear Creek <sup>3</sup>	3.1	3.1
Big Red <sup>6</sup>	12.2	6.1
Crow Butte <sup>2</sup>	27.8	9.0
East Shirley Basin <sup>7</sup>	2.8	2.8
Gas Hills <sup>3</sup>	52.9	52.9
Highland <sup>4</sup>	4.8	4.8
Leuenberger <sup>3</sup>	3.2	3.2
Peach <sup>5</sup>	7.0	7.0
Peterson Ranch <sup>3</sup>	1.2	1.2
Red Desert Basin <sup>7</sup>	26.6	26.6
Ruby Ranch <sup>3</sup>	2.0	2.0
Taylor Ranch <sup>8</sup>	10.0	5.0
<b>Total Resources</b>	<b>153.6</b>	<b>123.7</b>

<sup>1</sup> Tonnes and grade are not listed for these deposits because they contain in situ leach reserves and/or resources which will be dissolved in place and pumped to surface rather than excavated.

<sup>2</sup> Crow Butte ownership: Geomex Minerals Inc., a wholly owned US subsidiary of Cameco (32.309%); Uranerz USA Inc. (57.691%); Kepco Resources America Ltd. (10.00%). Located in Nebraska, US. Crow Butte Resources, Inc. is operator.

<sup>3</sup> Bear Creek, Gas Hills, Leuenberger, Peterson Ranch and Ruby Ranch ownership: Power Resources, Inc. (PRI), a wholly owned subsidiary of Cameco (100%). Located in Wyoming, US. PRI is operator.

<sup>4</sup> Highland ownership: Power Resources, Inc. (PRI), a wholly owned US subsidiary of Cameco (74.25%); Geomex Minerals Inc., a wholly owned US subsidiary of Cameco (25.75%). Located in Wyoming, US. PRI is operator.

<sup>5</sup> Peach ownership: Geomex Minerals Inc., a wholly owned US subsidiary of Cameco (100%). Located in Wyoming, US. Geomex is operator.

<sup>6</sup> Big Red ownership: Geomex Minerals Inc., a wholly owned subsidiary of Cameco (100%), subject to an option of PNC Exploration (USA) Inc. to earn up to a 50% interest in the joint venture by 2008. Located in Nebraska, US, adjacent to Crow Butte. Geomex is operator.

<sup>7</sup> East Shirley Basin and Red Desert ownership: Cameco Resources (U.S.) Inc. (100%). Located in Wyoming, US. Cameco Resources (U.S.) Inc. is operator.

<sup>8</sup> Taylor Ranch ownership: Power Resources, Inc. (PRI), a wholly owned subsidiary of Cameco (50%); Cotter Corporation (50%). Located in Wyoming, US. PRI is operator.



*Well-field sampler Robert Pollo takes a water sample from a monitoring well at the Highland uranium operation which produced a record 1.6 million pounds in 1997.*

potential for the discovery of high-grade uranium deposits. In 1997, Cameco continued to consolidate and maintain its land position, arguably the most favorable in Saskatchewan, and also increased its land holdings in the deeper and largely unexplored portion of the basin.

The 1997 drilling program intersected potentially significant unconformity-type uranium mineralization with assays up to 3.2% U<sub>3</sub>O<sub>8</sub> over 8.8 metres in the best drill hole in the Thorburn Lake area of the Dawn Lake project. Drilling results were also encouraging on two partner-operated projects in the Key Lake and McArthur River areas. The mineralized intersections found on these properties in 1997 will be followed up by more extensive drill programs in 1998.

**NORTHWEST TERRITORIES** In 1997, Cameco focused on developing drill targets in the Thelon Basin. Although no drilling took place, the corporation made a number of land acquisitions on its own and through a junior mining company. Geophysical and geochemical evaluations of these properties have developed a number of interesting drill targets for 1998.

**AUSTRALIA** Cameco's exploration activity in Australia is conducted from its office in Darwin, Northern Territory. Cameco continued exploration through two partner-operated joint ventures in Arnhem Land, Northern Territory and on 100% owned projects in both Arnhem Land and Western Australia. Cameco has established a favorable land position totalling 1.7 million hectares in these two regions and has concluded several access agreements with the traditional owners.

At Deaf Adder, a 100% owned Cameco property in Arnhem Land, an airborne radiometric and magnetic survey was followed up by ground prospecting. A more intensive exploration program including drilling is planned for 1998.

Negotiations to purchase a 50% interest of the exploration licences of Queensland Mines Pty. Limited were finalized with the completion of an agreement on February 6, 1998. Prospect evaluation, ground geophysics and drilling were conducted on this highly prospective property, as well as on the adjacent partner-operated project.

Cameco's US uranium subsidiaries provide expertise in the in situ leach extraction technology as well as geographic diversification.

approximately 2.6 million hectares, a modest increase from 1996. Cameco's share of the 1997 uranium exploration program cost \$15 million, a 36% increase over 1996 reflecting the company's objective to expand its reserve base.

**SASKATCHEWAN** The Athabasca Basin of northern Saskatchewan remains the area with the highest



#### Australia

Cameco has established a favorable land position in Australia, conducting exploration activity from its office in Darwin, Northern Territory.

# gold operations



## Diversification

A few years ago, Cameco expanded its involvement in the gold business in order to secure earnings from a commodity other than uranium and to gain access to additional opportunities for growth. Cameco's experience in mineral exploration, mine development, mine operation and environmental protection is directly applicable to the needs of a successful gold company.

Declining gold prices, as recently experienced, increase the availability of quality gold deposits and provide the company with improved opportunities to expand its reserve base.

Cameco is well positioned to take advantage of a weak gold market because, in addition to its proven expertise, it has financial strength, a conservative capital structure and a proven track record of successfully bringing to production mines located in remote and inhospitable regions.

## Profile

Cameco Gold is a wholly owned subsidiary of Cameco and constitutes the cornerstone of its commodity diversification strategy.

From its head office in Toronto, Cameco Gold focuses its activity on assembling a diversified portfolio of advanced gold properties through acquisitions and exploration on an international scale.

Cameco Gold increased its gold production substantially in 1997 with the startup of the Kumtor mine in Kyrgyzstan.

Gold-related revenue accounted for about 16% of Cameco's total revenue in 1997 and contributed some 9% to its earnings from operations.

## Operations



**KUMTOR** Kumtor is the largest, western-managed mining project completed anywhere in Central Asia. It is owned two-thirds by the Kyrgyz Republic and one-third by Cameco Gold and is operated by the Kumtor Operating Company, a wholly owned subsidiary of Cameco Gold.<sup>1</sup>

The Kumtor Operating Company declared commercial production in May 1997. Despite high altitude, extreme weather, difficult logistics and technical challenges, the production goals for the year were achieved almost two months ahead of schedule with lower than anticipated costs.

Total production for 1997 was more than 500,000 ounces at cash costs below \$200 (US) per ounce. Cameco Gold's share was more than 167,000 ounces.

<sup>1</sup> Cameco Gold's wholly owned subsidiary, Kumtor Mountain Company, holds one-third of Kumtor Gold Company, the joint venture company which owns the Kumtor deposit. Kumtor Mountain Company and Cameco Gold own 100% of the Kumtor Operating Company, which operates the mine.

*The Kumtor operation was proud to begin production in January 1997.*

## North America

Cameco Gold's exploration program in North America involves projects in Ontario, Quebec, Saskatchewan, Nevada, Montana and Mexico.



Cameco Gold is a wholly owned subsidiary of Cameco and forms the cornerstone of its commodity diversification strategy.

More than 5 million tonnes of ore are expected to be mined annually at the Kumtor open pit.

### Gold Mining 1

	Kumtor 2	Contact Lake 3	
	1997	1996 4	1997
Tonnes milled	4,022,828	—	292,722
Production (oz)	502,176	—	52,593
Recovery (%)	73.34	—	95.25
Average mill head grade (g/t)	5.55	—	6.00
Reserves at year end (thousand oz)	8,633	9,280	38
Employees	1,001	763	53

<sup>1</sup> Total production for the year ending December 31.

<sup>2</sup> Kumtor ownership: Kumtor Mountain Company, a wholly owned subsidiary of Cameco Gold Inc., (33.33%); Kyrgyz Republic (66.67%). Kumtor Operating Company, a wholly owned subsidiary of Cameco Gold Inc., is operator.

<sup>3</sup> Contact Lake ownership: Cameco (66.67%); Uranerz Exploration and Mining Limited (33.33%). Cameco is operator.

<sup>4</sup> Kumtor began production in 1997.

**CONTACT LAKE** The Contact Lake gold mine produced more than 52,000 ounces in 1997. Cameco's two-thirds share was about 35,000 ounces.

Lower than expected ore grades have resulted in reduced gold production levels and higher unit costs. Due to a lack of additional economic reserves, Contact Lake will cease operations in mid-1998.

### Gold Market Outlook

While there were a number of factors contributing to the downward pressure on gold prices in 1997, the actual or anticipated sales by central banks appear to have been the most significant. This unsettled situation is likely to continue through 1998 until European central banks make key decisions on gold holdings.

### South America

More than 20% of Cameco Gold's worldwide exploration spending was directed to South American properties in 1997.

### Strategic Alliances

In 1997, Cameco Gold shifted its emphasis from grassroots exploration to strategic alliances and more advanced exploration opportunities.

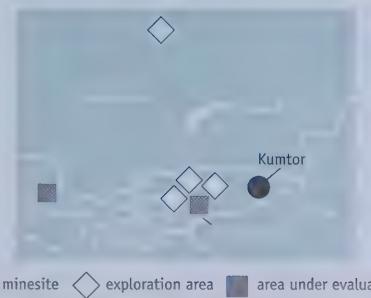
Cameco Gold extended its reach into new prospective gold regions by forging two strategic alliances in 1997.

Cameco Gold purchased a 9% interest in Menzies Gold NL of Australia in April and through a

Gold made a solid contribution to Cameco's earnings in 1997. With the startup of the Kumtor mine, gold revenue accounted for 16% of Cameco's total revenue and contributed 9% to earnings from operations.

subsequent rights issue increased its interest to 14.7%. An exploration and development agreement gives Cameco Gold the first opportunity to joint venture with Menzies in current and future projects. In 1997, Menzies focused its primary exploration activities in Sarawak, Malaysia and renewed its exploration presence in Thailand.

A strategic alliance was also formed with Cascadia Chemicals and Minerals Corporation on their Mongolian projects. Cascadia is an unlisted Canadian-controlled, junior mining company. Cameco Gold has the option to acquire up to a 33% equity position in Cascadia and earn a significant interest in Cascadia's exploration



● minesite    ◇ exploration area    ■ area under evaluation

## Gold Reserves and Resources

### Central Asia

(as of December 31, 1997)	Tonnes (thousands)	Gold g/t (oz/T)	Total (thousand oz)	Cameco's Share (thousand oz)
<b>Reserves</b>				
Contact Lake (Bakos) <sup>1</sup>	182	6.46 (0.19)	38	25
Kumtor <sup>2</sup>	75,751	3.54 (0.10)	8,633	2,878
<b>Total Reserves</b>			<b>8,671</b>	<b>2,903</b>
<b>Resources</b>				
Kumtor <sup>2</sup>	32,472	3.75 (0.11)	3,916	1,305
<b>Total Resources</b>			<b>3,916</b>	<b>1,305</b>

Field work and evaluation of a number of properties progressed in 1997, as Cameco Gold strives to build on the success at Kumtor.

<sup>1</sup> Contact Lake ownership: Cameco (66.67%); Uranerz Exploration and Mining Limited (33.33%). Cameco is operator.

<sup>2</sup> Kumtor ownership: Kumtor Mountain Company, a wholly owned subsidiary of Cameco Gold Inc., (33.33%); Kyrgyz Republic (66.67%). Kumtor Operating Company, a wholly owned subsidiary of Cameco Gold Inc., is operator.

## Base Metal Resources

(as of December 31, 1997)	Tonnes (thousands)	Gold g/t	Silver g/t	Copper %	Zinc %	Cameco's Share (thousand tonnes)
<b>Resources</b>						
Hanson Lake <sup>1</sup>						
Cu Zone	5,872	0.73	23.5	2.25	2.32	3,941
Zn Zone	7,208	0.36	25.0	0.46	7.10	4,836

<sup>1</sup> Hanson Lake ownership: Cameco (67.1%); Billiton Metals Canada Inc. (32.9%). Cameco is operator.



Kumtor is the largest, western-managed mining project completed anywhere in Central Asia.

The Kumtor mine-site, which sits at the side of a mountain 4,000 metres above sea level in Kyrgyzstan, is a tribute to management's ability to meet technical, logistical and cultural challenges.

projects when gold reserves are established. A review of all 1997 exploration data obtained in Mongolia will be conducted during the first quarter of 1998 to identify summer drill targets.

## Gold Exploration

Cameco Gold conducts an international exploration program, with projects in North America, South America and Asia.

Cameco Gold's North American exploration projects are managed from regional offices in Sudbury, Ontario and Reno, Nevada. Projects in South America are managed from offices in Santiago, Chile, and Lima, Peru while Central Asian activities are managed from Bishkek, Kyrgyzstan and Almaty, Kazakhstan.

Cameco Gold controlled and joint-ventured land holdings as of December 31, 1997 totalled more than 3 million hectares, an increase of about 4% over 1996.



At December 31, 1997, Cameco's share of Kumtor and Contact Lake gold hedging positions consists of:

	1998	1999
Forward contracts		
Amount hedged (thousands of ounces)	144	20
Average price US \$/oz	\$ 363	\$ 333
Put options purchased		
Amount hedged (thousands of ounces)	67	33
Average price US \$/oz	\$ 350	\$ 333
Call options sold		
Amount hedged (thousands of ounces)	33	50
Average price US \$/oz	\$ 374	\$ 378

■ area under evaluation ▲ strategic alliances

## Asia/Australia

Cameco Gold expanded its sphere of activity in Asia and Australia.

# people & community

Cameco seeks to maximize the employment of local people and the benefits flowing to communities nearest its operations, particularly when such operations are located in remote areas.

With the cessation of mining at Key Lake and the corresponding reduction in the workforce, Cameco focused on the retention of skilled northern employees for future operations. In 1997, there were 710 people working at Key Lake, Rabbit Lake, McArthur River, Contact Lake and La Ronge—almost half of these employees were northern residents, most of aboriginal ancestry. This record makes Cameco one of the leading industrial employers of aboriginal people in Canada.

At Kumtor, the percentage of local employees has increased to 87% since construction was completed and commercial operations began.

In Saskatchewan, a commitment to acquiring competitively priced goods and services wherever Cameco has operations has allowed the company to take an active role in the development of business and economic opportunities for local suppliers. Of the \$188 million of goods and services purchased in Saskatchewan in 1997, \$75 million was spent in northern Saskatchewan which had a significant impact on the northern economy. In Kyrgyzstan, Kumtor has relied on more than 450 local suppliers for goods and services and more than 130 contracts have been awarded to local contractors since development began in 1994.

In 1997, Cameco contributed \$1 million to become a founding partner in the innovative teaching and learning centre at the University of Saskatchewan. The first project of the centre was the development of the Cameco access program for engineering and sciences. This program will help bridge the gap between the north and post-secondary education by bringing specialized courses to remote areas, thereby allowing students to prepare for an engineering and science education without leaving the north.



*Cameco's northern Saskatchewan mine sites offer pleasant facilities for employees who commute to work on a seven-day-in/seven-day-out schedule.*

## Employment

(as of December 31, 1997)

	Cameco	Cameco Gold	Kumtor Operating Company	Power Resources, Inc.	Long-Term Contractors	Total
Canada	1,335	16	—	—	446	1,797
United States	3	6	—	92	29	130
Kyrgyzstan	—	1	1,001	—	248	1,250
South America	—	10	—	—	1	11
Australia	5	—	—	—	—	5
<b>Total</b>	<b>1,343</b>	<b>33</b>	<b>1,001</b>	<b>92</b>	<b>724</b>	<b>3,193</b>



# environment and safety

## Environment

Cameco is committed to environmentally safe operations and conducts a comprehensive sampling, monitoring and assessment program to ensure that the physical environment is protected.

*In the sandy soil near the Key Lake operation, summer student Sarah Gauthier checks the amount of growth on some of the 430,000 jack pines planted in the last four years.*

The company's ongoing interaction with environmental

regulators resulted in a number of developments during 1997.

**McARTHUR RIVER** The federal-provincial panel recommended approval of the McArthur River project, in February, subject to a number of recommendations.

The panel supported the proposed mining of the high-grade ore using non-entry mining methods and the placement of the mill tailings in the Key Lake Deilmann pit.

The federal and provincial governments endorsed most of the panel's recommendations and approved development subject to the normal construction and operation licensing process.

Two issues from this process have yet to be entirely resolved. First, there is a possible requirement for long-term monitoring of the tailings facility after a projected 25 years of operation. Second, sharing of revenues with local residents is a matter which is beyond the project owners' area of responsibility and which will be considered at the government level.

In August, the first phase of construction licensing from federal and provincial regulatory agencies was completed. A revised decommissioning plan and updated financial decommissioning assurances were filed as conditions of this licensing.

**CIGAR LAKE** The federal-provincial panel also recommended approval of the Cigar Lake project, subject to the resolution of two issues.

First, the operator must perform additional work to identify the best approach to dispose of mine waste rock and obtain regulatory approval.

Second, additional studies of the tailings management at the mill are required. Plans are to process the Cigar Lake ore 80 kilometres northeast at Cogema's McClean Lake mill and to place the resulting tailings in a mined-out pit. Although the panel endorsed the concept of in-pit tailings disposal for the project, it identified a number of site-specific conditions, including further assessment and monitoring that should be addressed during the licensing process.

The federal and provincial responses to the panel's report are expected in March 1998.

**KEY LAKE** A major step in the conversion of the Key Lake Deilmann pit to a tailings facility was completed in October after Cameco received the necessary approvals to finish construction of the dewatering and drainage system. This facility is designed to hold the remaining Key Lake tailings and the tailings from McArthur River ore milled at Key Lake in the future. Approval of the necessary changes to the operating system is anticipated in mid 1998.

Cameco finalized conceptual close-out plans for the Key Lake minesite and issued letters of credit to cover

**Annual expenditures of more than \$15 million are dedicated to environmental monitoring and assessment as well as to safety programs.**

its share of the cost of environmental decommissioning. The decommissioning plan, and associated cost estimate, will be periodically reviewed as site activities change.

**RABBIT LAKE** At Rabbit Lake, mining and backfilling

of the A-zone open pit was completed in the spring. Cameco subsequently received approval to replace the lake bottom sediment layer in the pit and to let it reflood. When the water quality meets regulatory requirements, application will be made to breach the dike that separates the flooded pit from the lake.

**CONTACT LAKE** A conceptual decommissioning plan was filed with the Saskatchewan government to comply with provincial regulations. The site will likely be decommissioned before financial assurances are required in 1999.

## Industrial Safety

Overall there was a marked improvement in safety during 1997 for Cameco employees and long-term contractors. In the Canadian operations, occupational lost-time accidents decreased 30% to nine among the 1,500 people within these two work groups. Lost-time accidents are those in which the time lost as a result of work-related injury extends beyond the day of the injury and prevents employees from reporting to work on their next scheduled shift.

At Kumtor, the transition from construction to production brought a significant improvement in safety performance. Employees and long-term contractors recorded five occupational lost-time accidents, a 90% reduction from the previous year. Regrettably, there was a fatality when an employee, working during the night, backed a bulldozer into a glacial cavity which had been posted. Increased safety awareness and education will continue.

The Blind River refinery continued its excellent safety performance and in January 1998 completed eight full years of operation without a lost-time accident while establishing new production records.

Cameco's exploration department completed nine years of field work without a lost-time accident.

## Regulatory Matters

The federal Nuclear Safety and Control Act was passed by parliament and will likely come into effect in early 1999 once supporting regulations are in place. Under the new act, lower radiation exposure limits will be established, incorporating a formula that combines the doses of gamma radiation, radon and dust intake that an individual receives in a year. Cameco-operated sites have proven they can meet these new standards. Even in the future high-grade mines at McArthur River and Cigar Lake, Cameco anticipates that it will satisfactorily meet these new standards, based on design features engineered into the mine and mill processes and practical experience at existing operations. Cameco will continue to search for new ways to reduce exposure further as operational procedures are refined.



*Consultant  
Margarete Kalin  
samples algae in  
Upper Link Lake  
near Rabbit Lake.  
She is involved in  
one of several  
research initiatives  
funded by Cameco  
to build the  
company's environ-  
mental knowledge  
base as it prepares  
long-term decom-  
missioning plans.*



# management's discussion and analysis

The following discussion and analysis should be read with the information contained in the company's audited consolidated financial statements and related notes. The statements are prepared in accordance with accounting principles generally accepted in Canada and, except as explained in note 27 to Cameco's 1997 consolidated financial statements, conform with those principles generally accepted in the United States.

*At Port Hope, operator Torsten Lins uses a vacuum system to move 50-kg pails of UO<sub>2</sub> which will ultimately be used as fuel in Candu reactors.*

and related notes. The statements are prepared in accordance with accounting principles generally accepted in Canada and, except as explained in note 27 to Cameco's 1997 consolidated financial statements, conform with those principles generally accepted in the United States.

## Significant Company Developments of 1997

Cameco experienced an eventful year with the company making solid progress in its nuclear and gold businesses. A number of significant developments occurred in 1997:

**McARTHUR RIVER** In August, Cameco received the regulatory approvals required for construction at the McArthur River project. Construction, which began immediately thereafter, is progressing towards production in 1999, subject to obtaining an operating licence. McArthur River is the world's largest known high-grade uranium deposit.

**KUMTOR** Commercial production at the Kumtor gold operation was announced on May 1, 1997. The mine was constructed at a cost of approximately \$450 million (US). Production was in excess of 502,000 ounces in 1997, exceeding expectations by more than 20% and at a cash cost of less than \$200 (US) per ounce. Cameco is operator and one-third owner of this large gold mine located in Kyrgyzstan.

**POWER RESOURCES, INC. (PRI)** In January 1997, Cameco completed the purchase of PRI, the largest uranium producer in the United States, providing Cameco with an additional source of lower-cost supply and expertise in the in situ leach extraction technology. PRI owns 74% of the Highland mine. Later in the year, Cameco, through its wholly owned US subsidiary Geomex, acquired the remaining 26% interest in the Highland mine.

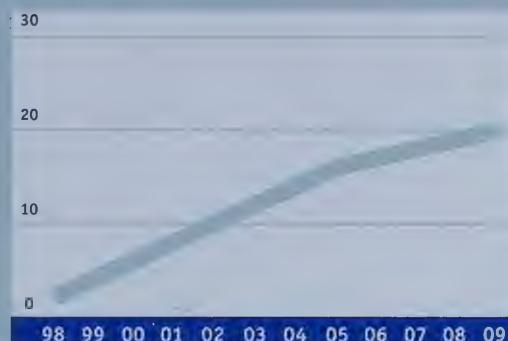
**PUBLIC EQUITY ISSUE** On August 27, 1997, Cameco issued 4 million common shares at \$51 per share. The proceeds from this sale strengthened the company's financial position and enhanced Cameco's flexibility to pursue future business opportunities.

**RUSSIAN HIGHLY ENRICHED URANIUM** In August 1997, Cameco and two other western companies entered into a memorandum of understanding with the Russian Ministry of Atomic Energy to purchase a portion of the natural uranium displaced as a result of the dismantling of Russian nuclear weapons. Cameco anticipated its share of such uranium to be up to 80 million pounds of U<sub>3</sub>O<sub>8</sub> over 10 years.

In view of the Russian ownership of the uranium and of the 10-year term of the proposed

**US Restrictions  
on Russian HEU**  
(million lbs U<sub>3</sub>O<sub>8</sub>)

*US limits on  
annual sales of  
uranium derived  
from Russian highly  
enriched uranium  
(HEU) help  
provide market  
stability.*



agreement, Cameco and the other western companies insisted on a number of assurances, including that the agreement be officially sanctioned by the Russian government and be enforceable for the contract term. Positions taken by the Russian negotiators, including a proposed change in selling parties, made the assurances requested by the western companies unattainable. In December 1997, the negotiations were suspended.

The uranium displaced as a result of the dismantling of nuclear weapons has long been accounted for in the supply forecasts of the company and of the uranium industry. This material continues to be subject to trade restrictions and quotas—limiting the volumes that can be sold in the United States and the European Union. Cameco continues to believe that this material can be incorporated into the market in a non-disruptive fashion.

**CIGAR LAKE** The joint federal-provincial panel recommended that the Cigar Lake project be approved subject to a number of conditions, including a further review of waste rock disposal options at the mine and of the resolution of tailings management issues at the mill.

The two governments are reviewing the panel recommendations and are expected to issue a response, with a decision on subsequent action, in early 1998. Cigar Lake ranks second only to McArthur River in terms of size and grade.

## Results of Operations 1997 Compared to 1996

In 1997, Cameco's consolidated net earnings were \$82 million (\$1.51 per share), compared to \$138 million in 1996. This reduction is due primarily to the introduction of a non-cash income tax expense. Net earnings were also impacted by lower uranium selling prices, partially offset by an increased volume of gold sales.

Cameco posted earnings from operations of \$151 million, an increase of \$6 million over 1996 despite a significant decline of approximately 23% in the average U<sub>3</sub>O<sub>8</sub> spot price in 1997 from 1996. Earnings from operations exceeded last year's record levels due to the significant increase in gold sales resulting from the commencement of production at Kumtor.

The segmented results of Cameco's two business operations are as follows:

### Nuclear Business

Cameco's nuclear business consists of the exploration for and the development, mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power plants.

**REVENUE** In 1997, revenue from its nuclear business declined by 4% to \$540 million in comparison to

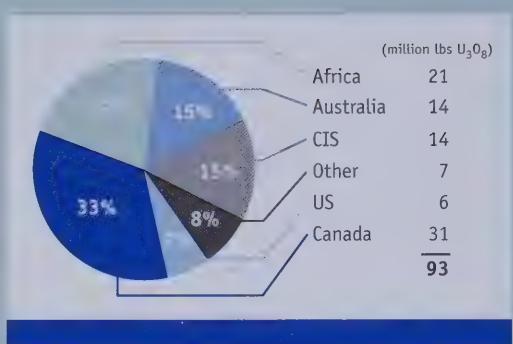
### Consolidated Financial Results

(in millions except per share amounts)	1997	1996	% Change
Revenue	\$ 643	\$ 591	+ 9
Earnings from operations	\$ 151	\$ 145	+ 4
Net earnings	\$ 82	\$ 138	- 41
Earnings per share	\$ 1.51	\$ 2.60	- 42

## World Uranium Production

(estimated 1997)

Cameco's 19 million pounds of  $U_3O_8$  production in 1997 accounted for 20% of the world's total.



## Financial Results - Nuclear

(in millions)	1997	1996	% Change
Revenue	\$ 540	\$ 561	- 4
Cost of products and services sold	\$ 270	\$ 280	- 4
Depreciation, depletion and reclamation	\$ 98	\$ 88	+ 11
Exploration	\$ 15	\$ 11	+ 36
Research and development	\$ 2	\$ 3	- 33

1997 uranium requirements through 1996 spot market purchases or long-term contracts. In addition, there was some aggressive selling by a few suppliers. Overall this resulted in a market with thin demand and excess supply.

The fall in spot prices resulted in an 8% decline in Cameco's average realized selling price for uranium concentrates. This was offset somewhat by an increase in uranium concentrate sales volume of almost 5%, making 1997 a record year for uranium sales volume by the company.

On a proforma basis, a \$1.00 (US) increase in the  $U_3O_8$  spot price throughout the year would have increased revenue by \$12 million compared to \$14 million in 1996. In 1997, the \$12 million impact on revenue from a \$1.00 (US) increase in the  $U_3O_8$  spot price would have translated to about \$4 million in additional net earnings. In 1996, because Cameco was not required to record an income tax expense, most of the \$14 million impact on revenue would have been reflected in net earnings.

The average selling price realized for conversion services was up almost 4% in 1997 from last year, although sales volumes were down by almost 8%. Spot and long-term prices for conversion services weakened in the last quarter of 1997 due to the perception of excess supply from the conversion component of the uranium displaced as a result of the dismantling of Russian weapons.

Cameco's earnings are also affected by the relationship between the Canadian and US dollars. A \$0.01 (US) increase in the Canadian dollar would have decreased 1997 nuclear revenue by \$6 million compared to \$7 million in 1996.

**COST OF PRODUCTS AND SERVICES SOLD** The costs of products and services sold including depreciation, depletion and reclamation remained unchanged at \$368 million as compared to 1996. Higher costs associated with increased volume of uranium concentrate sales were offset by lower royalty costs and lower costs of sales for conversion services.

**EXPLORATION** Exploration expenditures increased by 36% in 1997 to \$15 million, reflecting Cameco's objective to expand its reserve base globally, particularly in Australia.

1996. Although Cameco sells uranium only in the long-term market, approximately 60% of its 1997 deliveries were impacted by the  $U_3O_8$  spot price.

The uranium spot price fell by \$4.50 (US) per pound  $U_3O_8$  over the course of the first eight months of the year to a low of \$10.20 (US), and then rebounded by \$1.85 (US) to end the year at \$12.05 (US). In part, the spot market was influenced by weak demand because utilities had filled their

In 1997, Cameco invested \$32 million in uranium and gold exploration in support of the company's objective to expand its reserve base.

## Gold Business

**REVENUE** Cameco's gold business generated revenue of \$103 million in 1997, up \$73 million from 1996, reflecting the startup of the Kumtor gold mine. About \$98 million of 1997 gold revenue was derived from Cameco's share of Kumtor and Contact Lake production sales. The remaining \$5 million was attributable to management fees that Cameco earned as operator of the Kumtor project.

These results compare to \$30 million of gold revenue in 1996. About \$24 million of 1996 gold revenue was derived from Cameco's share of the Contact Lake production sales. The remaining \$6 million was attributable to management fees that Cameco earned as operator of the Kumtor project.

**COST OF PRODUCTS SOLD** Kumtor exceeded expectations this year by producing more than 502,000 ounces of gold (Cameco's share 167,000 ounces) at cash costs below \$200 (US) per ounce, which includes 79,000 ounces (Cameco's share 26,000 ounces) produced during the commissioning phase. The revenue from the sale of these 79,000 ounces was credited against the commissioning costs.

The results from Contact Lake have not met expectations with production of 53,000 ounces of gold (Cameco's share 35,000 ounces) in 1997. Lower than anticipated ore grades resulted in reduced production and higher unit costs. It is expected that Contact Lake will be closed in mid-1998 due to depletion of economic reserves.

**EXPLORATION** Gold exploration expenditures were unchanged from 1996 at \$18 million. Cameco's goal is to expand its gold production through a combination of exploration and acquisition. With gold prices falling significantly, Cameco's efforts have focused on acquisition opportunities and less on exploration.

## Non-Segmented Expenses

Administration expenses rose by 17% to \$27 million in 1997. This increase is due primarily to the inclusion of Cameco's new US subsidiary, Power Resources, Inc. As a percentage of revenue, administrative expenses remained essentially unchanged at approximately 4%.

In addition to cash taxes, a deferred income tax expense was recorded for the first time in 1997, significantly increasing the total tax expense to \$65 million from \$5 million in 1996.



Geologist Chris Buchanan is part of the exploration team which focused its efforts on uranium-rich regions in Saskatchewan and Australia.

### Financial Results - Gold

(in millions)	1997	1996	% Change
Revenue	\$ 103	\$ 30	+ 243
Cost of products sold	\$ 46	\$ 18	+ 156
Depreciation, depletion and reclamation	\$ 25	\$ 7	+ 257
Exploration	\$ 18	\$ 18	-
Gold sales (ounces)	173,354	40,414	+ 329
Average selling price (\$Cdn/oz)	\$ 569	\$ 589	- 3



Construction is under way at the McArthur River project where uranium production will eventually reach 18 million pounds annually.

About 85% to 90% of western world uranium is sold on the long-term market, with the remainder traded on the spot market.

## Cash Resources

During 1997, operating activities generated net cash flows, after changes in working capital, of \$ 62 million (\$2.98 per share) compared to \$178 million (\$3.37 per share) a year earlier

Cash from sales of products and services of \$642 million in 1997 increased by \$71 million compared to 1996 primarily due to increased gold sales. This positive cash flow was mostly offset by an increase of \$65 million in cash used to purchase products and services. A combination of higher uranium purchases and gold production expenditures of about \$51 million and \$41 million respectively, offset somewhat by lower graduated uranium royalty payments, accounted for most of the \$65 million increase.

Cash provided by operations was further reduced by increased administration expenditures as a result of the acquisition of PRI and interest on the Kumtor gold project which was classified as an operating expense after the startup of commercial production.

Cash used in investing activities increased by \$163 million to \$325 million in 1997 compared to 1996. This increase was primarily due to the acquisition of PRI and additional loans made to the Kumtor Gold Company (KGC). About \$126 million in cash was used for net additions to property, plant and equipment of which \$76 million was spent on the McArthur River and Cigar Lake uranium development projects.

Cash provided by financing activities amounted to \$258 million in 1997, an increase of \$274 million compared to 1996. The majority of this increase reflects Cameco's public share offering of 4 million shares which yielded net proceeds of \$195 million. In addition, an increase in debt was required to finance the purchase of PRI.

## Results of Operations 1996 Compared to 1995

### Consolidated Financial Results

(in millions except per share amounts)	1996	1995	% Change
Revenue	\$ 591	\$ 395	+ 50
Earnings from operations	\$ 145	\$ 104	+ 39
Net earnings	\$ 138	\$ 102	+ 35
Earnings per share	\$ 2.60	\$ 1.95	+ 33

Cameco recorded net earnings of \$138 million (\$2.60 per share) in 1996 compared to \$102 million (\$1.95 per share) in 1995. This represents a 35% increase in net earnings on revenue growth of 50%. The 1996 results were achieved through increased sales volumes and improved prices for Cameco's products and services.

During 1996, uranium markets continued the recovery that began in 1995. The U<sub>3</sub>O<sub>8</sub> spot price at the beginning of 1996 was \$12.20 (US) per pound of U<sub>3</sub>O<sub>8</sub> and at the end of the year was \$14.70 (US). The spot price reached a 1996 high of \$16.50 (US) per pound U<sub>3</sub>O<sub>8</sub>.

Cameco is pleased with its earnings from operations in 1997 given the depressed commodity markets which it faced. While deferred income taxes have affected the company's net earnings, Cameco posted strong cash flow from operations.

## Nuclear Business

**REVENUE** In 1996, revenue in this segment rose 50% to \$561 million. This improvement was due to increases in both the volume of sales and average unit selling prices. The volume of uranium concentrates sold in 1996 was up approximately 39% over 1995, while the average unit selling price rose by 14%. In conversion services, sales volumes increased by 28% over the 1995 level while unit selling prices did not change significantly.

An increase of \$1.00 (US) per pound U<sub>3</sub>O<sub>8</sub> in the spot price throughout 1996 would have increased revenues by \$14 million compared to \$11 million in 1995. Similarly, a \$0.01 (US) increase in the Canadian dollar versus the US dollar would have decreased 1996 nuclear revenue by \$7 million, compared to \$4 million in 1995.

**COST OF PRODUCTS AND SERVICES SOLD** The cost of products and services sold along with depreciation, depletion and reclamation increased to \$368 million in 1996 from \$240 million in 1995, up \$128 million or 53%. Approximately 70% of this increase is attributable to the increases in sales volumes. The other 30% was due principally to higher graduated royalty charges and small increases in per unit cost of inventory sold. Material sold that was mined from Key Lake or the Rabbit Lake Collins Bay B-zone orebody is at a stage where it is subject to graduated uranium royalties.

## Gold Business

**REVENUE** Cameco's gold activities for the year generated revenues of \$30 million, compared to \$22 million in 1995. About 80% of 1996 revenues, or \$24 million, came from Cameco's share of Contact Lake gold production, with the remaining \$6 million being management fees earned as operator of the Kumtor gold project.

**COST OF PRODUCTS SOLD** The volume of gold sales increased to 40,414 ounces in 1996 from 27,931 ounces in 1995. While a cash margin of \$5 million was produced from the sale of this gold, amortization charges of approximately \$7 million resulted in a net loss of \$2 million. As previously reported, results

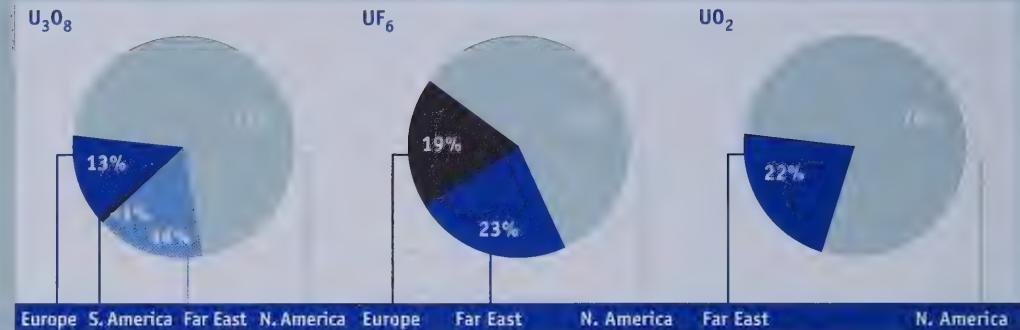
### Financial Results - Nuclear

(in millions)	1996	1995	% Change
Revenue	\$ 561	\$ 373	+ 50
Cost of products and services sold	\$ 280	\$ 178	+ 57
Depreciation, depletion and reclamation	\$ 88	\$ 62	+ 42
Exploration	\$ 11	\$ 6	+ 83
Research and development	\$ 3	\$ 2	+ 50

### Financial Results - Gold

(in millions)	1996	1995	% Change
Revenue	\$ 30	\$ 22	+ 36
Cost of products sold	\$ 18	\$ 13	+ 38
Depreciation, depletion and reclamation	\$ 7	\$ 5	+ 40
Exploration	\$ 18	\$ 11	+ 64
Gold sales (ounces)	40,414	27,931	+ 45
Average selling price (\$Cdn/oz)	\$ 589	\$ 562	+ 5

**Sales Volume**  
(by region)



*North America continues to be Cameco's largest customer region for all uranium products.*

from Contact Lake have not met expectations because of lower than expected ore grades resulting in reduced production levels and higher unit costs.

### Non-Segmented Expenses

Administration expenses rose by 19% to \$23 million in 1996. As a percentage of total revenue, these expenses remained essentially unchanged at around 4%. Improved skills training programs and higher support costs related to Cameco's expanding operations accounted for most of the change in administration expenses.

### Cash Resources

During 1996, the company's operating activities generated cash flows of \$178 million (\$3.37 per share) compared to \$133 million (\$2.53 per share) a year earlier. These strong cash flows were used to pay dividends and to fund approximately \$150 million of investing activities.

Due to the higher 1996 revenues, cash receipts from the sale of products and services increased to \$571 million in 1996 from \$377 million in 1995.

Cash used to purchase products and services increased by \$129 million to \$331 million as compared to 1995. Higher uranium royalty payments and greater expenditures for uranium purchases accounted for about \$48 million and \$39 million, respectively, of the increase. Most of the remaining \$42 million was due to higher cash expenditures at Key Lake, Rabbit Lake and Contact Lake. At Key Lake, 1996 expenditures were higher than in 1995 due to resumption of production mining following one year in which mining activities were capitalized as development stripping or as part of the construction of a tailings management facility. As for Rabbit Lake and Contact Lake, costs were higher primarily due to increased production.

Cash applied to additions to property, plant and equipment, including development projects, decreased slightly to \$168 million in 1996 from \$175 million in 1995. Included in the \$168 million are approximately \$84 million that represents Cameco's one-third share of development expenditures at Kumtor, uranium development expenditures of \$35 million primarily at McArthur River and Cigar Lake, and other capital expenditures of \$49 million for improvements at various operating sites. The decrease of \$50 million in additions to long-term receivables and investments to \$28 million reflects a reduction in advances of subordinated loans to Kumtor Gold Company (KGC) by Cameco. Of the \$77 million subordinated loan that was advanced in 1995, \$32 million was a short-term bridge loan which was repaid in early 1996.

Cameco concluded contracts for 32 million pounds of U<sub>3</sub>O<sub>8</sub> in 1997 for delivery well into the next decade.

## Liquidity and Capital Resources - 1997

Cameco had agreements in place that accessed up to \$483 million in unsecured lines of credit and provided liquidity for its operations and funding for capital expenditures.

They included a \$250 million revolving credit facility and \$233 million in overdraft and letter of credit facilities. The revolving credit facility was used for general corporate purposes, including backup to Cameco's \$150 million commercial paper program, and provided for a variety of borrowing options. At December 31, 1997, the revolving credit facility was undrawn and outstanding letters of credit totalled \$117 million.

On February 18, 1998, Cameco reached agreement with a syndicate of large financial institutions to provide a \$400 million revolving credit facility. The credit facility will mature in five years and will replace the \$250 million revolving facility that is referred to above. The \$233 million in overdraft and letter of credit facilities remain in place. The company determined current market conditions were opportune for increasing the size of its available bank credit on favorable terms.

In 1997, Cameco borrowed \$100 million (US) to finance the acquisition of PRI. This debt, which matures on March 31, 1998, is expected to be refinanced with either a drawdown on the revolving credit facility or a capital markets debt issue.

Separate arrangements were established to provide financing for the Kumtor gold project. A consortium of financial institutions has advanced \$285 million (US) in senior and subordinated loans to the project. Cameco proportionately consolidates its interest in the Kumtor Gold Company (KGC). Therefore, \$95 million (US) (\$136 million (Cdn)) of these outstanding advances are included in Cameco's long-term debt balance. (See financial statement note 8 on long-term debt).

The total cost for Kumtor development was approximately \$450 million (US). Funding in excess of Cameco's equity contribution of \$45 million (US) and the \$285 million (US) from the consortium of financial institutions, net of changes in working capital, was provided by Cameco in the form of a subordinated loan to KGC. At December 31, 1997, outstanding advances under this subordinated loan amounted to \$107 million (US).

The Kumtor credit facilities are an obligation of KGC. However, Cameco has agreed to guarantee the payment of all amounts of principal and interest that become due on the \$265 million (US) senior debt component of the \$285 million (US) Kumtor funding. This guarantee does not apply in the case of certain



*The Cigar Lake project is anticipating government decisions in early 1998 on future development.*



Lab technician Jane Graham analyses process samples for uranium content at the Blind River refinery, which had record production in 1997.

Cameco's partnership with the world's largest enricher will ensure the company remains a vital part of any advancements in enrichment technology.

events of political force majeure, which are covered by political risk insurance purchased on behalf of some lenders and self-insured by other lenders.

Cameco is bound by certain financial covenants that are present

in its credit facilities and in those of Kumtor. These covenants place restrictions on total long-term debt, including guarantees, and set minimum levels for net worth. As of December 31, 1997, Cameco met such covenant tests and does not expect its planned operating and investing activities to be constrained by them.

Cameco believes that its operating cash flow and available bank credit, plus ready access to the capital markets will be sufficient for planned expenditures and the pursuit of additional growth opportunities as they arise.

## Decommissioning

Every two years, Cameco formally reviews the anticipated costs of decommissioning and reclaiming each of the company's operating sites as part of its environmental planning process. These estimated decommissioning and reclamation costs are also formally reviewed by Cameco when it submits licence renewal applications to regulatory authorities. Estimated costs, to the extent not already provided for, are charged against future production on a site-by-site basis.

Accordingly, the current year's share of these costs of \$13 million has been charged to current production and accumulated in an accounting provision. In 1997, actual expenditures on decommissioning and reclamation activities amounted to \$4 million and were deducted from this provision. As a result of the acquisition of Power Resources, Inc., Cameco's provision for reclamation increased by an additional \$15 million. At the end of 1997, Cameco had a total accounting provision of \$88 million for future reclamation costs.

In 1997, considerable work was undertaken to update decommissioning plans for Cameco's Canadian operations and ensure that required financial assurances were put in place to fulfill regulatory requirements. Irrevocable letters of credit for the Rabbit Lake operation were issued in December 1996 as required by the regulatory authorities. Similar letters of credit for the Key Lake operation were issued in October 1997. Revised letters of credit were issued for the McArthur River project in January 1998 to reflect the further development and construction of the project. All of these letters of credit, totalling \$56 million, were issued to the government of Saskatchewan.

Updated decommissioning plans for Cameco's fuel services operations were filed with regulators in February and March of 1997. Formal financial assurances are not currently required for these plants. For the Contact Lake gold operation, a decommissioning plan, together with a cost estimate, was filed with provincial regulators in March 1997. Under current regulation, formal financial assurances for this operation are not required until March 1999.

Cameco maintained its market share of about 15% of western world uranium consumption.

## Risk Management

The statements in this management's discussion and analysis, including those in the outlook section, which relate to the future, are forward-looking statements and are subject to a number of risks and uncertainties. The company's results in the future may differ materially from those which are expressed or implied by the forward-looking statements in this section of the annual report.

**RISK FACTORS** There are several risks that could affect Cameco's results. They include the sensitivity of the company's revenues to market prices of uranium and gold; competition; the impact of changes in foreign currency exchange rates; environmental considerations; political developments, particularly in the developing countries in which the company operates; changes in government regulations and policies including trade laws; demand for nuclear power; replacement of production, and receipt of permits and approvals from governmental authorities.

**FINANCIAL RISK MANAGEMENT** Cameco engages in a currency hedging program to mitigate risks associated with fluctuations of the US dollar relative to the Canadian dollar. At December 31, 1997, Cameco had sold forward \$365 million (US) at an average rate of approximately \$1.41 per US dollar as a hedge of future revenues denominated in US dollars. In addition, Cameco has option positions to sell \$20 million (US) at an average rate of \$1.41 per US dollar.

The company also seeks to manage the risks associated with fluctuating market prices of uranium. Depending on market conditions, Cameco seeks to maintain a portfolio of uranium contracts with a variety of delivery dates and pricing mechanisms.

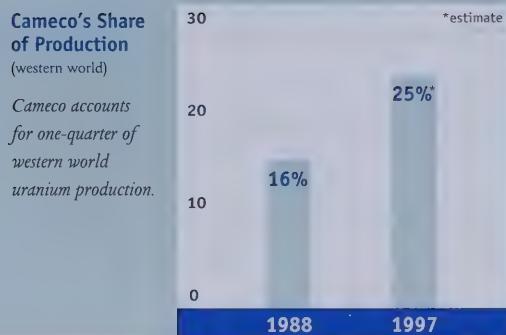
The company has a policy to actively hedge the price of gold through a combination of forward sale and option contracts. At December 31, 1997, Cameco had forward sale contracts for 28,000 ounces of gold at an average price of \$420 (US) per ounce. KGC also hedges the price risk for gold in its own name. At year end, it had in place forward sale and put option agreements on 710,000 ounces at a minimum price of \$346 (US) per ounce, which hedge a portion of planned production. As part of these hedging activities, KGC also sold call options on 250,000 ounces that will result in a maximum price of \$376, if exercised. These call options expire in 1998 and 1999.

Cameco acquires political risk insurance to protect its investment when such coverage is considered appropriate. For example, the company has purchased political risk insurance that covers 90% of both its subordinated loan and equity contribution in KGC. Cameco also benefits from the involvement of international multilateral financing agencies in KGC, whose presence in the project indirectly supports all participants.

**OPERATIONS RISK MANAGEMENT** To replace existing sources of production which will soon be depleted, Cameco is currently developing two new mines in Saskatchewan, McArthur River and Cigar



Autocad draftsperson Ray Manning, junior mine engineer Tanya Smith, chief mine engineer Doug Beattie and senior survey technician Richard Liimatainen are part of the McArthur River team preparing the project for mining in 1999.



Lake. McArthur River, which has received regulatory approval for construction, must obtain an operating licence before it can begin production scheduled for late 1999. Cigar Lake is waiting for federal-provincial government approval to begin construction. The timing of these projects depends, in part, on receiving government permits and approvals. In addition, Cameco conducts an extensive exploration program and investigates potential opportunities for property acquisitions.

Cameco invests in a comprehensive insurance program to manage risk in its operations and reduce its exposure to potential liabilities.

Computer-based systems are used extensively by the company in many of its business processes. Cameco is fully aware of the implications of the year 2000 issue, which is the concern that computer programs will create errors because the programs were written using fewer than the four digits required to unambiguously define the applicable year.

Cameco believes, with the software modifications completed and in progress, that the year 2000 issue will not pose a problem for the company. The company is expensing all costs as incurred and the total cost of the project is not material and will not affect the financial results of the company. As of December 31, 1997, Cameco's year 2000 compliance was estimated to be 75% complete and the company expects to achieve full compliance by the end of 1998. Initiatives with key suppliers and vendors are also being undertaken to address year 2000 compliance of their systems.

## 1998 Outlook

### Nuclear Business

The outlook for the long-term uranium fundamentals remains positive. Uranium consumption continues to outpace production by almost 50%. Over the next decade, uranium consumption is expected to grow modestly while production from existing mines will decline as economic reserves are depleted. The shortfall between production and consumption is currently being met primarily by excess western inventories. Even with the supply of uranium coming from the dismantling of nuclear weapons, as existing inventories are drawn down and as some mine reserves are exhausted, there will be a need for new mines.

Cameco believes that prices must improve in order to justify investment in new mine development. If prices remain at the 1997 levels, it is unlikely that many potential mines would be able to justify the capital expenditures required for the development and construction of new facilities.

Notwithstanding longer-term optimism, Cameco expects there will be, from time to time, some weakness in spot market demand with resulting downward pressure on prices. Because the spot market reflects only small and short-term transactions, spot prices are likely to exhibit some volatility during 1998.

Cameco's revenue and net earnings are affected by changes in U<sub>3</sub>O<sub>8</sub> spot prices. The magnitude of any effect is influenced by the various pricing structures in Cameco's sales contracts. These may moderate the

The high grade of the McArthur River deposit means that only 125 tonnes of ore per day will be mined to produce 18 million pounds U<sub>3</sub>O<sub>8</sub> annually.



effect of a change in the spot price, limit the realized price at a predetermined ceiling or floor, or, if the contract is based on a fixed price, preclude a price change entirely. Furthermore, any change in net earnings resulting from a change in the realized prices will be mitigated by royalties and taxes.

In 1998, Cameco's sales of uranium concentrate and conversion services are expected to remain relatively constant.

In the near future, the cost of products and services sold along with depreciation, depletion and reclamation charges will be influenced by the transition from Key Lake and Rabbit Lake production to McArthur River and Cigar Lake production. During the period of transition, as depleting mines reduce output and new mines commence, unit costs are expected to temporarily increase.

**1998 CAPITAL AND DEVELOPMENT EXPENDITURES** Cameco plans to invest approximately \$170 million in its uranium business during 1998. This includes about \$140 million for mine development at its Saskatchewan projects, McArthur River and Cigar Lake, and at the US properties, Highland, Crow Butte and Gas Hills. In addition, \$30 million is planned to be spent for plant modifications and sustaining capitals at its existing minesites and conversion facilities.

Construction is ongoing at the McArthur River project and to the extent allowed by existing permits and licences, some development work will take place at Cigar Lake and at PRI's Gas Hills uranium project. Obtaining regulatory approval for the development of the Cigar Lake project is a priority during 1998.

## Gold Business

In 1998, gold production is scheduled to exceed 550,000 ounces at Kumtor and 30,000 ounces at Contact Lake with Cameco's share of production totalling about 200,000 ounces.

Applying current hedge contracts in place for Contact Lake and Kumtor, and including the management fee from Kumtor, total gold revenue is expected to be higher for 1998.

Only sustaining capital expenditures are anticipated at Kumtor in 1998, with Cameco's share expected to total about \$6 million.

## Revenue sensitivity

In 1998, a \$1.00 (US) increase in the U<sub>3</sub>O<sub>8</sub> spot price is expected to increase revenue by \$14 million. The resulting affect on net earnings would be about one-third of this change in revenue mainly because of income taxes and uranium royalties. Fluctuations in foreign currency exchange rates are not expected to materially impact the company's revenue during 1998 as a result of the currency hedging program in place.

Main hoist operator Ed Clavelle, a contractor, operates the hoist which carries people and equipment underground at McArthur River. This new equipment began operating early in 1997.

### Capital and Development Expenditures

	Cameco's share (1998)
Mine development	\$ 140
Plant modifications and sustaining capital	\$ 30
Total	\$ 170

## Report of Management's Accountability

The accompanying consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada.

Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in the annual report and reflect the corporation's business transactions and financial position.

The integrity and reliability of Cameco's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Internal accounting controls are monitored by the internal auditor. Cameco's code of ethics, which is communicated to all levels in the organization, requires employees to maintain high standards in their conduct of the corporation's affairs.

Our shareholders' independent auditors, KPMG, whose report on their examination follows, have audited the consolidated financial statements in accordance with generally accepted auditing standards.

The board of directors annually appoints an audit committee comprised of directors who are not employees of the corporation. This committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the audit committee. Following its review of the financial statements and the report of the shareholders' auditors, the audit committee submits its report to the board of directors for formal approval of the financial statements.

Original signed by David M. Petroff  
Senior Vice-President, Finance and Administration  
and Chief Financial Officer  
January 26, 1998

## Auditors' Report

To the Shareholders of Cameco Corporation

We have audited the consolidated balance sheets of Cameco Corporation as at December 31, 1997, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in cash resources for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1997, 1996 and 1995 and the results of its operations and the changes in its cash resources for the years then ended in accordance with generally accepted accounting principles in Canada.

Original signed by KPMG  
Chartered Accountants  
Saskatoon, Canada  
January 26, 1998

## Consolidated Balance Sheets

As at December 31	1997	1996 (Thousands)	1995
<b>Assets</b>			
Current assets			
Cash	\$ 109,722	\$ 14,603	\$ 14,642
Accounts receivable [note 3]	111,584	88,380	91,964
Inventories [note 4]	298,708	227,598	220,205
Supplies and prepaid expenses	37,785	24,553	18,990
	<hr/> 557,799	<hr/> 355,134	<hr/> 345,801
Property, plant and equipment [note 5]	1,342,728	1,202,557	1,115,785
Long-term receivables and investments [note 6]	188,696	106,741	72,637
Inventories [note 4]	181,479	114,150	133,127
<b>Total assets</b>	<b>\$ 2,270,702</b>	<b>\$ 1,778,582</b>	<b>\$ 1,667,350</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Short-term debt [note 7]	\$ 143,650	\$ —	\$ —
Accounts payable and accrued liabilities	93,831	62,695	68,172
Dividends payable	7,181	6,647	6,582
Current portion of long-term debt [note 8]	14,016	—	—
Current portion of other liabilities [note 10]	26,553	14,680	22,615
	<hr/> 285,231	<hr/> 84,022	<hr/> 97,369
Long-term debt [note 8]	129,065	200,018	196,462
Provision for reclamation [note 9]	87,976	64,171	57,338
Other liabilities [note 10]	19,147	10,699	14,524
Deferred income taxes	57,050	—	—
	<hr/> 578,469	<hr/> 358,910	<hr/> 365,693
Shareholders' equity			
Share capital [note 11]	684,792	482,721	475,781
Contributed surplus	496,745	496,745	496,745
Retained earnings	494,608	440,206	329,131
Cumulative translation adjustment [note 12]	16,088	—	—
	<hr/> 1,692,233	<hr/> 1,419,672	<hr/> 1,301,657
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,270,702</b>	<b>\$ 1,778,582</b>	<b>\$ 1,667,350</b>

Commitments and contingencies [note 22]

See accompanying notes to consolidated financial statements.

Approved by the board of directors

Original signed by Allan E. Blakeney and Richard B. Baltzan

## Consolidated Statements of Earnings

For the year ended December 31	1997	1996 (Thousands)	1995
<b>Revenue from</b>			
Products and services	\$ 642,945	\$ 590,861	\$ 395,271
<b>Expenses</b>			
Products and services sold	316,108	298,205	190,210
Depreciation, depletion and reclamation	122,676	94,974	67,481
Administration	27,213	23,255	19,617
Exploration	32,023	29,223	16,991
Research and development	1,893	3,334	1,629
Interest [note 13]	(7,962)	(3,396)	(4,412)
	491,951	445,595	291,516
<b>Earnings from operations</b> [note 24]	<b>150,994</b>	<b>145,266</b>	<b>103,755</b>
Other income (expense)	(3,958)	(2,422)	1,858
<b>Earnings before income taxes</b>	<b>147,036</b>	<b>142,844</b>	<b>105,613</b>
Income taxes [note 14]	65,057	5,311	3,528
<b>Net earnings</b> [note 24]	<b>\$ 81,979</b>	<b>\$ 137,533</b>	<b>\$ 102,085</b>

## Consolidated Statements of Retained Earnings

For the year ended December 31	1997	1996 (Thousands)	1995
Retained earnings at beginning of year	\$ 440,206	\$ 329,131	\$ 253,261
Net earnings	81,979	137,533	102,085
Dividends	(27,577)	(26,458)	(26,215)
<b>Retained earnings at end of year</b>	<b>\$ 494,608</b>	<b>\$ 440,206</b>	<b>\$ 329,131</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Cash Resources

For the year ended December 31	1997	1996 (Thousands)	1995
<b>Operating activities</b>			
Sale of products and services	\$ 642,148	\$ 570,808	\$ 377,400
Products and services purchased	(396,068)	(331,319)	(202,202)
Administration and R&D	(32,389)	(24,972)	(19,898)
Exploration	(31,006)	(28,872)	(16,561)
Income taxes	(6,425)	(4,802)	(3,586)
Interest	(14,154)	(2,940)	(2,632)
<b>Cash provided by operations [notes 15, 24]</b>	<b>162,106</b>	<b>177,903</b>	<b>132,521</b>
<b>Investing activities</b>			
Additions to property, plant and equipment	(126,143)	(168,141)	(175,212)
Additions to long-term receivables and investments	(49,042)	(27,730)	(77,470)
Repayment of additional subordinated loan	—	31,591	—
Acquisition of net business assets	(155,975)	—	—
Proceeds on sale of property, plant and equipment	6,315	2,227	200
<b>Cash used in investing</b>	<b>(324,845)</b>	<b>(162,053)</b>	<b>(252,482)</b>
<b>Financing activities</b>			
Increase in debt	150,412	88,415	189,914
Repayment of debt	(63,699)	(84,859)	(55,020)
Issue of shares, net of issue costs	198,188	6,948	5,415
Dividends	(27,043)	(26,393)	(26,166)
<b>Cash provided by (used in) financing</b>	<b>257,858</b>	<b>(15,889)</b>	<b>114,143</b>
Increase (decrease) in cash during the year	95,119	(39)	(5,818)
Cash at beginning of year	14,603	14,642	20,460
<b>Cash at end of year</b>	<b>\$ 109,722</b>	<b>\$ 14,603</b>	<b>\$ 14,642</b>

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

For the years ended December 31, 1997, 1996 and 1995

### 1. Cameco Corporation (Cameco)

Cameco is incorporated under the Canada Business Corporations Act. Cameco is primarily engaged in the exploration for and the development, mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power reactors in Canada and other countries. Cameco is also involved in the exploration for and the development, mining and sale of gold.

### 2. Accounting Policies

A summary of significant accounting policies of Cameco follows the notes to the consolidated financial statements.

### 3. Accounts Receivable

	<b>1997</b>	<b>1996</b> (Thousands)	<b>1995</b>
Trade receivables	\$ 110,059	\$ 88,380	\$ 60,373
Current portion of long-term receivables [note 6]	1,525	—	31,591
<b>Total</b>	<b>\$ 111,584</b>	<b>\$ 88,380</b>	<b>\$ 91,964</b>

### 4. Inventories

	<b>1997</b>	<b>1996</b> (Thousands)	<b>1995</b>
<b>Nuclear</b>			
Concentrate	\$ 324,519	\$ 224,485	\$ 220,796
Broken ore	112,556	94,616	100,113
Conversion services	31,358	17,978	27,917
	468,433	337,079	348,826
<b>Gold</b>			
Broken ore	8,026	2,448	2,185
Finished	3,728	2,221	2,321
	11,754	4,669	4,506
Total inventories	480,187	341,748	353,332
Less non-current inventories	(181,479)	(114,150)	(133,127)
<b>Net</b>	<b>\$ 298,708</b>	<b>\$ 227,598</b>	<b>\$ 220,205</b>

### 5. Property, Plant and Equipment

	Cost	Accumulated Depreciation and Depletion	1997 Net	1996 Net (Thousands)	1995 Net
<b>Nuclear</b>					
Mining	\$ 1,292,440	\$ 739,226	\$ 553,214	\$ 508,107	\$ 537,406
Development	361,349	361,349	—	267,290	233,709
Conversion services	226,308	73,999	152,309	155,448	154,550
<b>Gold</b>					
Mining	270,950	25,014	245,936	12,687	19,385
Development	—	—	—	243,010	156,858
<b>Other</b>	<b>49,098</b>	<b>19,178</b>	<b>29,920</b>	<b>16,015</b>	<b>13,877</b>
<b>Total</b>	<b>\$ 2,200,145</b>	<b>\$ 857,417</b>	<b>\$ 1,342,728</b>	<b>\$ 1,202,557</b>	<b>\$ 1,115,785</b>

## Notes to Consolidated Financial Statements

<b>6. Long-Term Receivables and Investments</b>	<b>1997</b>	<b>1996</b> (Thousands)	<b>1995</b>
Kumtor Gold Company			
Subordinated loan - principal	\$ 102,889	\$ 70,705	\$ 40,956
Subordinated loan - interest	26,932	12,289	5,915
Additional subordinated loan	—	—	31,591
Power Resources, Inc. reclamation trust	16,527	—	—
Utility receivable	19,629	20,000	20,000
Investment in associated company	11,295	—	—
Other investments	12,949	3,747	5,766
	<u>190,221</u>	<u>106,741</u>	<u>104,228</u>
Less current portion [note 3]	(1,525)	—	(31,591)
<b>Net</b>	<b>\$ 188,696</b>	<b>\$ 106,741</b>	<b>\$ 72,637</b>

### **7. Short-Term Debt**

The short-term debt is unsecured and consists of \$143,650,000 (\$100,000,000 (US)) due March 31, 1998 with interest based on LIBOR plus 0.225%.

<b>8. Long-Term Debt</b>	<b>1997</b>	<b>1996</b> (Thousands)	<b>1995</b>
Kumtor Gold Company [note 17]			
Senior debt	\$ 126,891	\$ 120,981	\$ 31,692
Subordinated debt	9,577	9,130	9,101
Cameco share savings bonds [note 18]	6,613	6,208	7,111
Commercial paper at an average interest rate of 3% (1996 - 5%, 1995 - 7%)	—	63,699	148,558
	<u>143,081</u>	<u>200,018</u>	<u>196,462</u>
Less current portion	(14,016)	—	—
<b>Net</b>	<b>\$ 129,065</b>	<b>\$ 200,018</b>	<b>\$ 196,462</b>

Cameco has a long-term revolving credit facility available until August 16, 2000 which has a limit of \$250,000,000 provided by a syndicate of Canadian banks. As a result, outstanding commercial paper has been classified as long term. In addition, Cameco has a \$15,000,000 overdraft facility and \$218,000,000 (\$100,000,000 (CDN) and \$82,000,000 (US)) in letter of credit facilities. Outstanding letters of credit at December 31, 1997 amounted to \$117,487,000.

## Notes to Consolidated Financial Statements

The repayment schedule below represents Cameco's one-third share of Kumtor Gold Company principal repayments on debt and Cameco's share savings plan payments over the next five years and thereafter:

	(Thousands)
1998	\$ 14,016
1999	25,827
2000	25,827
2001	23,622
2002	23,622
thereafter	30,167
<b>Total</b>	<b>\$ 143,081</b>

Pursuant to the terms of the Kumtor financing arrangements [note 17], Cameco has guaranteed, subject to exclusions in respect of defined political force majeure events, the repayment of Kumtor's senior debt. Cameco's contingent obligations under these guarantees exceed the amount included in Cameco's long-term debt as at December 31, 1997 by \$253,781,000.

	1997	1996	1995
	(Thousands)		
<b>Nuclear</b>			
Mining	\$ 40,935	\$ 22,892	\$ 19,886
Fuel services	45,776	41,135	37,366
<b>Gold</b>	<b>1,265</b>	<b>144</b>	<b>86</b>
<b>Total</b>	<b>\$ 87,976</b>	<b>\$ 64,171</b>	<b>\$ 57,338</b>

Cameco's estimates of decommissioning and reclamation costs are based on reclamation standards which meet or exceed regulatory requirements and are stated in current dollars. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives and amounts to be recovered from other parties.

Cameco estimates total future decommissioning and reclamation costs for its operating assets to be \$172,000,000. These estimates are formally reviewed by Cameco technical personnel at least every two years or more frequently as required by regulatory agencies. These costs are accrued and charged to operations using the unit-of-production method so that the estimated future liability will be fully provided when decommissioning and reclamation activities are undertaken. In connection with future decommissioning and reclamation costs, Cameco has provided all required financial assurances satisfying current regulatory requirements.

	1997	1996	1995
	(Thousands)		
<b>10. Other Liabilities</b>			
Borrowed product	\$ 9,129	\$ 14,390	\$ 26,543
Deferred revenue	22,571	5,866	5,554
Provision for post-employment benefits	3,556	2,703	2,300
Other	10,444	2,420	2,742
	45,700	25,379	37,139
Less current portion	(26,553)	(14,680)	(22,615)
<b>Net</b>	<b>\$ 19,147</b>	<b>\$ 10,699</b>	<b>\$ 14,524</b>

## Notes to Consolidated Financial Statements

### 11. Share Capital

Authorized share capital:

Unlimited number of first preferred shares  
 Unlimited number of second preferred shares  
 Unlimited number of voting common shares, and  
 One class B share

#### (a) Common Shares

Number Issued	1997	1996 (Number of Shares)	1995
Beginning of year	53,175,458	52,652,945	52,261,847
Issued:			
Public offering	4,000,000	—	—
Share savings plan [note 18]	112,436	358,663	248,948
Stock option plan [note 19]	147,550	153,850	132,150
Agreement for services	10,000	10,000	10,000
<b>Issued share capital</b>	<b>57,445,444</b>	<b>53,175,458</b>	<b>52,652,945</b>
Amount	1997	1996 (Thousands)	1995
Beginning of year	\$ 486,988	\$ 478,590	\$ 472,911
Issued:			
Public offering	199,229	—	—
Share savings plan [note 18]	1,264	4,035	2,801
Stock option plan [note 19]	5,541	4,193	2,708
Agreement for services	170	170	170
<b>Issued share capital</b>	<b>693,192</b>	<b>486,988</b>	<b>478,590</b>
Less loans receivable [note 19]	(8,400)	(4,267)	(2,809)
<b>End of year</b>	<b>\$ 684,792</b>	<b>\$ 482,721</b>	<b>\$ 475,781</b>

- (i) On August 27, 1997 Cameco issued 4,000,000 common shares pursuant to a public offering for a total consideration of \$204,000,000. The proceeds of the issue after deducting expenses, net of tax recoveries, were \$199,229,000.
- (ii) A maximum of 783,200 shares can be issued under the exchange privileges available to owners of Cameco share savings bonds under the terms of the Cameco share savings plan, between January 1, 1998 and December 30, 2000 [note 18].
- (iii) Options in respect of 1,173,775 shares are outstanding under the stock option plan and are exercisable up to 2007 [note 19]. Upon exercise of existing options, additional options in respect of 332,200 shares would be granted. An employment services contract provides for 10,000 shares to be issued in 1998.
- (iv) The aggregate number of common shares that may be issued, after December 5, 1995, pursuant to the Cameco share savings plan [note 18], stock option plan [note 19] and pursuant to any other compensation arrangement of Cameco, shall not exceed 5,243,403, of which 794,099 (1996-524,113, 1995-1,600) shares have been issued.

## Notes to Consolidated Financial Statements

### (b) Class B Share

One class B share issued during 1988 and assigned \$1 of share capital, entitles the shareholder to vote separately as a class in respect of any proposal to locate the head office of Cameco to a place not in the province of Saskatchewan.

### 12. Cumulative Translation Adjustment

The balance of \$16,088,000 at December 31, 1997 represents the cumulative unrealized exchange gain on Cameco's net investments in foreign operations and foreign debt designated as a hedge of the net investments.

### 13. Interest

	1997	1996 (Thousands)	1995
Interest expense			
Short-term debt	\$ 8,588	\$ 311	\$ 557
Long-term debt	13,129	13,334	9,315
Interest income	(12,792)	(4,267)	(4,064)
Capitalized interest	(13,803)	(12,626)	(8,589)
	(4,878)	(3,248)	(2,781)
Foreign currency gains	(3,084)	(148)	(1,631)
<b>Net</b>	<b>\$ (7,962)</b>	<b>\$ (3,396)</b>	<b>\$ (4,412)</b>

### 14. Income Taxes

The provision for income taxes differs from the amount computed by applying the combined expected federal and provincial income tax rate to earnings before income taxes. The reasons for these differences are as follows:

	1997	1996 (Thousands)	1995
Earnings before income taxes	\$ 147,036	\$ 142,844	\$ 105,613
Combined federal and provincial tax rate	45.8%	45.8%	45.7%
Computed income tax expense	67,342	65,423	48,265
Increase (decrease) in taxes resulting from:			
Provincial royalties and other taxes	18,650	28,094	12,957
Federal resource allowance	(19,837)	(23,201)	(15,667)
Earned depletion allowance	—	—	(988)
Foreign affiliate income not subject to tax (i)	(6,493)	—	—
Large corporations and other taxes	5,601	5,311	3,528
Other	(206)	(626)	(612)
Income tax expense	65,057	75,001	47,483
Less realization of additional tax values	—	(69,690)	(43,955)
<b>Net</b>	<b>\$ 65,057</b>	<b>\$ 5,311</b>	<b>\$ 3,528</b>
Current income taxes	\$ 6,210	\$ 5,311	\$ 3,528
Deferred income taxes	58,847	—	—
<b>Net</b>	<b>\$ 65,057</b>	<b>\$ 5,311</b>	<b>\$ 3,528</b>

(i) Income taxes have not been provided on the unremitted earnings of foreign affiliates which Cameco intends to indefinitely reinvest in foreign operations.

## Notes to Consolidated Financial Statements

### 15. Reconciliation of Net Earnings to Cash Provided by Operations

	1997	1996 (Thousands)	1995
<b>Net earnings</b>	\$ 81,979	\$ 137,533	\$ 102,085
Add non-cash items:			
Depreciation, depletion and reclamation	122,676	94,974	67,481
Deferred income taxes	58,847	—	—
Other	(3,764)	1,251	(2,729)
	<u>259,738</u>	<u>233,758</u>	<u>166,837</u>
Changes in non-cash items relating to operations:			
Accounts receivable	(19,669)	(28,844)	(21,247)
Long-term receivables	(14,643)	(6,374)	(5,915)
Inventories	(114,498)	(1,078)	(26,094)
Supplies and prepaid expenses	(8,757)	(4,814)	(1,842)
Accounts payable and accrued liabilities	24,362	(761)	22,021
Other liabilities	19,136	(12,518)	551
Deferred revenue	22,137	2,201	(659)
Reclamation	(3,550)	(2,809)	(1,103)
Other	(2,150)	(858)	(28)
<b>Cash provided by operations</b>	<b>\$ 162,106</b>	<b>\$ 177,903</b>	<b>\$ 132,521</b>

### 16. Joint Ventures

Cameco conducts the majority of its development, mining and milling operations through joint ventures. Cameco's share of operating expenses related to mining and milling activities is included in the cost of inventories and charged to operations as the product is sold.

Cameco has interests in the following significant uranium and gold joint ventures:

<b>Uranium</b>	<b>Operator</b>	<b>Cameco's Interest</b>	
		<b>Ownership (%)</b>	<b>Voting (%)</b>
<b>Producing:</b>			
Key Lake	Cameco	66.67	66.67
Rabbit Lake	Cameco	66.67	66.67
Crow Butte	Crow Butte Resources, Inc.	32.31	32.31
<b>Non-producing:</b>			
Cigar Lake	Cigar Lake Mining Corporation	48.75	50.75
McArthur River	Cameco	55.84	55.84
<b>Gold</b>			
<b>Producing:</b>			
Contact Lake	Cameco	66.67	66.67
Kumtor Gold Company	Cameco	33.33	33.33

The non-Cameco operating companies are owned by the respective joint-venture participants.

## Notes to Consolidated Financial Statements

Certain producing and non-producing properties are conducted through joint ventures under which production is allocated to each of the joint-venture participants. The joint-venture participants derive revenue directly from the sale of such production. Cameco's share of the assets and liabilities of these joint ventures is as follows:

	1997	1996 (Thousands)	1995
Current assets	\$ 26,501	\$ 33,630	\$ 27,781
Property, plant and equipment	785,061	782,002	799,512
Long-term inventory	132,508	74,290	86,539
	<b>\$ 944,070</b>	<b>\$ 889,922</b>	<b>\$ 913,832</b>
Current liabilities	\$ 25,021	\$ 15,638	\$ 13,477
Provision for reclamation	25,837	23,036	19,972
Net investment			
Uranium	884,018	839,340	860,391
Gold	9,194	11,908	19,992
	<b>\$ 944,070</b>	<b>\$ 889,922</b>	<b>\$ 913,832</b>

For the Kumtor gold joint venture, which obtains revenue from the sale of products, Cameco's share of the assets and liabilities, revenue and expenses is as follows:

	1997	1996 (Thousands)	1995
Current assets	\$ 45,559	\$ 9,256	\$ 2,396
Property, plant and equipment	278,551	275,420	184,703
	<b>\$ 324,110</b>	<b>\$ 284,676</b>	<b>\$ 187,099</b>
Current liabilities	\$ 10,746	\$ 13,646	\$ 8,518
Long-term liabilities	202,827	171,446	78,795
Equity	110,537	99,584	99,786
	<b>\$ 324,110</b>	<b>\$ 284,676</b>	<b>\$ 187,099</b>
Revenue	\$ 69,812	\$ 589	\$ —
Expenses	(63,693)	-	(661)
<b>Net earnings (loss)</b>	<b>\$ 6,119</b>	<b>\$ 589</b>	<b>\$ (661)</b>
Cash provided by (used in)			
Operating activities	\$ 20,633	\$ 1,136	\$ (1,142)
Investing activities	(17,160)	(90,902)	(110,533)
Financing activities	13,936	89,985	112,494
<b>Increase in cash during the year</b>	<b>\$ 17,409</b>	<b>\$ 219</b>	<b>\$ 819</b>

## Notes to Consolidated Financial Statements

### **17. Kumtor Gold Company (KGC) Joint Venture**

On May 26, 1994, Cameco, the Republic of Kyrgyzstan and Kyrgyzaltn, an instrumentality of the Republic, signed an amended joint-venture master-agreement that provided for the exploration, development, operation and arrangement of financing, of the Kumtor gold project by Cameco. KGC was formed in the Republic of Kyrgyzstan as a joint stock company to hold the assets of the Kumtor gold project pursuant to the master agreement. Kyrgyzaltn holds a two-thirds interest in KGC and Cameco holds a one-third interest.

Cameco has contributed \$45,000,000 (US) in equity, loaned \$107,437,276 (US) in the form of subordinated debt under the financing agreements, and arranged \$265,000,000 (US) in senior debt and \$20,000,000 (US) in third-party subordinated debt.

Cameco guarantees repayment of KGC senior debt in the event of certain project-related defaults. This guarantee would not apply to certain political force majeure events. Political risk insurance covers \$155,000,000 (US) in senior debt.

Commissioning of the mill facilities began prior to December 31, 1996 and commercial production was reached in May 1997.

Cameco has proportionately consolidated its one-third interest in KGC.

#### **KGC'S long-term debt at December 31, is as follows:**

	<b>1997</b>	<b>1996</b> (Thousands)	<b>1995</b>
<b>Senior debt:</b>			
Commercial banks \$155,000,000 (1996 - \$155,000,000, 1995 - \$39,000,000) (US) repayable in 10 equal semi-annual instalments commencing December 1, 1998 with interest based on LIBOR plus 0.7%. Political risk insurance has been purchased separately by Kumtor.	\$ 222,657	\$ 212,288	\$ 53,243
Export Development Corporation (EDC) \$50,000,000 (1996 - \$50,000,000, 1995 - \$13,928,571) (US)	71,825	68,480	19,015
International Finance Corporation (IFC) \$30,000,000 (1996 - \$30,000,000, 1995 - \$8,357,143) (US)	43,095	41,088	11,409
European Bank for Reconstruction and Development (EBRD) \$30,000,000 (1996 - \$30,000,000, 1995 - \$8,357,143) (US)	43,095	41,088	11,409
The EDC, IFC and EBRD interest rate is based on LIBOR plus 3% which includes a premium for political risk insurance. These loans are repayable in 12 equal semi-annual instalments commencing December 1, 1998.			
The senior debt is secured by the assets and shares of KGC.			
Total senior debt	\$ 380,672	\$ 362,944	\$ 95,076

Your opinions about Cameco's 1997 annual report are important to us. Please take a few minutes to complete this survey and return it in the attached postage paid envelope, or fax it to (306) 956-6318.

1. How would you rate the annual report as a source of information?

excellent  very good  acceptable  fair  poor

2. How does the 1997 annual report compare to the previous year's report?

much better  somewhat better  about the same  not as good  much worse  do not know

If you thought it was better or worse than last year, could you tell us why?

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3. How does Cameco's annual report compare to other metals and minerals reports you read? Please explain.

much better  somewhat better  about the same  not as good  much worse

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4. How much of the annual report do you read?

all or almost all  most  some  little  none

5. Which of the following sections did you find the most informative? Please rank in order of importance starting with number one as the most informative.

to our shareholders  marketing  operations  people & community  environment & safety  
 management's discussion and analysis  financial statements  financial notes



MAIL

Canada Post Corporation

Postage paid

If mailed in Canada

Business Reply

0097826



0097826499-S7M1J3-BR01

Investor & Corporate Relations  
Cameco Corporation  
2121 - 11th Street West  
Saskatoon SK S7M 9Z9

Did the report meet this need?  Yes  No Why or why not?

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7. What are some of the things you like the most?

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8. What are some of the things you like the least?

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9. Do you have any suggestions for improvement?

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10. Does the annual report adequately explain Cameco's future direction?  Yes  No Why or why not?

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11. What is your relationship to Cameco? Check all applicable boxes.

- individual shareholder  institutional shareholder/money manager  broker firm analyst  employee  
 government/regulator  customer  supplier/contractor  media  
 other (please specify) \_\_\_\_\_
- 

MOISTEN CAREFULLY – PRESS DOWN FIRMLY

Thank you for your assistance!



## Notes to Consolidated Financial Statements

### **Subordinated debt:**

EBRD \$10,000,000 (US)	\$ 14,365	\$ 13,696	\$ 13,652
IFC \$10,000,000 (US)	14,365	13,696	13,652
EBRD and IFC, repayable in four equal semi-annual instalments commencing on December 2, 2005, extendable at the option of EBRD or IFC to commence no later than December 2, 2013. The interest rate applicable to the EBRD and IFC subordinated debt is based on the cash generated by the project subject to a minimum interest rate. The annualized rate for 1997 was approximately 10% (1996 - 5%, 1995 - 5%).			
Cameco's shareholder's loan note with interest based on LIBOR plus 6%, repayable in 12 equal semi-annual instalments commencing on December 2, 1999. \$107,437,276 (1996 - \$77,437,276, 1995 - \$45,000,000) (US)	154,334	106,058	61,434
Cameco additional amount - \$34,709,903 (US)	-	-	47,386
<b>Total KGC debt</b>	<b>\$ 563,736</b>	<b>\$ 496,394</b>	<b>\$ 231,200</b>

Cameco's one-third proportionate share of KGC senior debt is \$126,891,000 (1996 - \$120,981,000, 1995-\$31,692,000) and of KGC's third-party subordinated debt is \$9,577,000 (1996 - \$9,130,000, 1995-\$9,101,000) [note 8].

KGC carries out a gold price hedging program. The objective is to establish prices for a portion of future production to enhance the ability to service project debt in the event of reduced prospective gold prices. At December 31, 1997, Cameco's one-third share of KGC's hedging program represented 237,000 ounces at an average price of \$346 (US). Cameco's share of the mark-to-market gain was \$10,600,000 (US).

### **18. Cameco Share Savings Plan**

On December 31, 1990, Cameco issued 10-year, 11% redeemable and exchangeable bonds registered to subscribing employees. At the option of employees, bonds may be exchanged or redeemed at the end of any calendar quarter. Bonds were exchanged for shares of Cameco as disclosed in note 11.

Under terms of the plan Cameco agreed to provide financing to employees to purchase the bonds, and agreed to partially match the employees' repayment of the loans. Loan balances are required to be fully repaid at the time of exchange. Cameco's estimated maximum commitment under this matched repayment program is \$1,430,000.

The outstanding bonds and loans receivable are as follows:

	<b>1997</b>	<b>1996</b>	<b>1995</b>
		(Thousands)	
Cameco share savings bonds	\$ 9,249	\$ 10,515	\$ 14,556
Less loans receivable	(2,636)	(4,307)	(7,445)
<b>Net</b>	<b>\$ 6,613</b>	<b>\$ 6,208</b>	<b>\$ 7,111</b>

## Notes to Consolidated Financial Statements

### 19. Stock Option Plan

Cameco has established a stock option plan under which options to purchase common shares may be granted to directors, officers and other employees of Cameco. Options granted under the stock option plan have an exercise price of not less than the closing price quoted on The Toronto Stock Exchange for the common shares of Cameco on the trading day prior to the date on which the option is granted. The options expire 10 years from the date of the grant of the option.

Under the stock option plan, participants are eligible to receive loans from Cameco to assist in the purchase of common shares pursuant to the exercise of certain options. The maximum term of the loans is 10 years from the date of the grant of the related option. These loans bear interest at a rate equivalent to the regular dividends paid on the common shares to which these loans were provided. Common shares purchased by way of a company loan are held in escrow in the account of the optionee and are pledged as security until the loan has been repaid in full.

Outstanding loans are shown as a reduction from share capital.

	<b>1997</b>	<b>1996</b> (Dollars only in Thousands)	<b>1995</b>
Common shares held as security for loans	248,225	161,425	134,250
Market value of security at December 31	\$ 11,518	\$ 8,862	\$ 6,796
Loans outstanding at December 31 [note 11]	\$ 8,400	\$ 4,267	\$ 2,809

Options were outstanding as follows:

<b>Option Price Per Share</b>	<b>1997</b>	<b>1996</b> (Number of Shares)	<b>1995</b>
\$15.00 - 35.00	461,575	541,925	684,925
\$35.01 - 55.00	392,750	17,150	13,325
\$55.01 - 75.50	319,450	319,000	-
<b>End of year</b>	<b>1,173,775</b>	<b>878,075</b>	<b>698,250</b>

Stock option transactions for the respective years were as follows:

	<b>1997</b>	<b>1996</b> (Number of Shares)	<b>1995</b>
Beginning of year	878,075	698,250	529,400
Options granted	471,500	380,850	343,200
Options exercised [note 11]	(147,550)	(153,850)	(132,150)
Options cancelled	(28,250)	(47,175)	(42,200)
<b>End of year</b>	<b>1,173,775</b>	<b>878,075</b>	<b>698,250</b>
<b>Exercisable</b>	<b>558,150</b>	<b>411,450</b>	<b>264,050</b>

### 20. Pension Plans

Cameco's pension plans, which cover substantially all full-time employees, are defined contribution plans. Cameco's obligations are limited to matching the contributions made by employees for current services and are charged to operations.

## Notes to Consolidated Financial Statements

### 21. Property and Business Acquisitions

(a) On January 13, 1997, Cameco purchased all of the outstanding shares of Power Resources, Inc. (PRI) and Central Electricity Generating Board Exploration (Canada) Ltd. (CEGBE). The acquisition price was \$145,645,000 (\$107,900,000 (US)) and was financed by cash of \$9,645,000 and debt of \$136,000,000. PRI owns 74% and is the operator of the Highland uranium project in Wyoming. CEGBE is primarily involved in uranium exploration activities in Canada. The acquisition has been accounted for using the purchase method and the results of operations are included in Cameco's consolidated financial statements from the effective date of purchase.

	(Thousands)
Net assets acquired were:	
Working capital	\$ 20,341
Property, plant and equipment	140,495
Long-term liabilities	<u>(15,191)</u>
Net assets acquired	<u>145,645</u>
Less cash acquired	<u>(1,895)</u>
<b>Net</b>	<b>\$ 143,750</b>

(b) On June 16, 1997, Cameco purchased the remaining interest in the Highland uranium project. The acquisition price was \$18,962,000 (\$13,700,000 (US)) and was financed by transfer of a uranium development project in Canada for \$6,230,000 and entering into an agreement to deliver 800,000 lbs of uranium concentrate valued at \$12,732,000. The acquisition has been accounted for using the purchase method and the results of operations are included in Cameco's consolidated financial statement from the effective date of purchase.

	(Thousands)
Net assets acquired were:	
Working capital	\$ (145)
Property, plant and equipment	22,753
Long-term liabilities	<u>(3,646)</u>
Net assets acquired	<u>18,962</u>
Less cash acquired	<u>(370)</u>
<b>Net</b>	<b>\$ 18,592</b>

### 22. Commitments and Contingencies

(a) Under the terms of the agreement to transfer assets from Canada Eldor Inc. to Cameco, Canada Eldor Inc. and Cameco along with the government of Canada, agreed on a formula for sharing any future joint costs, excluding normal operating costs, related to certain specified existing wastes, accumulated by Canada Eldor Inc., and transferred to Cameco on October 5, 1988, the date of transfer of assets. Pursuant to the cost sharing formula, Cameco assumed liability for the first \$2,000,000 of joint costs and 23/98ths of the next \$98,000,000. The government of Canada and Canada Eldor Inc. assumed the liability for the remaining 75/98ths and for all costs in excess of \$100,000,000.

Cameco's maximum liability for joint costs related to certain specified existing wastes, calculated pursuant to the formula, is \$25,000,000. A total of \$3,783,000 (1996 - \$3,523,000; 1995 - \$2,142,000) has been spent to date.

- (b) Cameco has a commitment, with certain qualifications, to buy a minimum of 50 gigawatt hours of hydroelectric power per year from SaskPower Corporation. Cameco presently consumes in excess of its minimum commitment.
- (c) Cameco is a co-defendant, with Canada Eldor Inc., in a lawsuit brought in 1993 on behalf of certain members of the Eldorado Pension Plan (plan). The lawsuit is based on the fact that approximately \$15,500,000 of plan expenses and employer contributions was funded from the plan surplus rather than from the co-defendants.

Affidavits have been exchanged and some cross examinations have taken place, but the cross examinations have not yet been completed. As such, many of the factual and legal issues have not yet been determined.

The co-defendants have a number of defences which continue to be vigorously pursued. Management remains of the opinion, after review of the facts with counsel, that the outcome of this case will not have a material impact on Cameco's financial position, results of operations or changes in cash resources.

- (c) Two actions against Cameco, Cameco Gold Inc., Kumtor Operating Company and certain other parties have been commenced in Canadian courts by certain dependents of 10 persons seeking damages, in the amount of \$20,700,000 including punitive damages, and in an unspecified amount respectively, in connection with the death of the said 10 persons in a helicopter accident in Kyrgyzstan on October 4, 1995. These actions are being defended by the insurers of Cameco. Management is of the opinion, after review of the facts with counsel, that the outcome of these actions will not have a material impact on Cameco's financial position, results of operations or changes in cash resources.

### 23. Financial Instruments

The majority of revenues are derived from the sale of uranium products. Cameco's financial results are closely related to the long- and short-term market price of uranium and conversion services. Prices are subject to fluctuation and are affected by demand for nuclear power, worldwide production levels and political and economic conditions in uranium producing and consuming countries. Revenue from gold operations is largely dependent on the market price of gold which is subject to significant fluctuation affected by industry and economic factors and worldwide production levels. Financial results are also impacted by changes in foreign currency exchange rates, interest rates and other operating risks.

To hedge risks associated with fluctuations in the market price for uranium, Cameco seeks, when market conditions permit, to maintain a portfolio of uranium contracts with a variety of delivery dates and pricing mechanisms which provide protection from price volatility. To hedge risks associated with gold prices and foreign currency exchange rates, Cameco employs a number of financial instruments. Cameco uses a series of put and call options to establish a minimum and maximum price range for gold sales and exchange rates for sales denominated in US dollars. Cameco also enters into forward sales contracts which establish a price for future deliveries of gold and US dollars.

## Notes to Consolidated Financial Statements

Financial assets which are subject to credit risks include cash and securities, accounts receivable and commodity and currency instruments. Cameco mitigates credit risk on these financial assets by holding positions with a variety of large creditworthy institutions. Sales of uranium are to creditworthy utility customers with short payment terms.

Except as disclosed below, the fair market value of Cameco's financial assets and financial liabilities approximate net book value as a result of the short-term nature of the instrument or the variable interest rate associated with the instrument.

### Currency

Cameco has sold forward \$365,000,000 (US) at an average exchange rate of \$1.408 at various dates until 1999.

Cameco has hedge positions to sell \$20,000,000 (US) with an average minimum exchange rate of \$1.410 and an average maximum exchange rate of \$1.542 that mature early in 1998.

At December 31, 1997, the net mark-to-market loss of Cameco's foreign currency instruments was \$6,200,000 (CDN).

### Commodity

At December 31, 1997, Cameco's share of Kumtor and Contact Lake gold hedging positions consists of:

	<b>1998</b>	<b>1999</b>
Forward contracts		
Amount hedged (thousands of ounces)	144	20
Average price (US \$/oz)	\$ 363	\$ 333
Put options purchased		
Amount hedged (thousands of ounces)	67	33
Average price (US \$/oz)	\$ 350	\$ 333
Call options sold		
Amount hedged (thousands of ounces)	33	50
Average price (US \$/oz)	\$ 374	\$ 378

At December 31, 1997, the net mark-to-market gain on the above instruments was \$14,200,000 (US).

### 24. Per Share Amounts

Per share amounts have been calculated based on the weighted average number of common shares outstanding during the year, net of shares held as security for employee loans to purchase shares. The weighted average number of paid shares outstanding in 1997 was 54,413,333 (1996 - 52,833,746; 1995 - 52,359,946).

	<b>1997</b>	<b>1996</b> (Per share)	<b>1995</b>
Cash provided by operations	\$ 2.98	\$ 3.37	\$ 2.53
Earnings from operations	\$ 2.77	\$ 2.75	\$ 1.98
Net earnings	\$ 1.51	\$ 2.60	\$ 1.95

## Notes to Consolidated Financial Statements

	<b>1997</b>	<b>1996</b> (Millions)	<b>1995</b>
<b>25. Segmented Information</b>			
<b>(a) Business Segments</b>			
<b>Revenue from products and services</b>			
Nuclear	\$ 539.7	\$ 561.0	\$ 373.0
Gold	103.2	29.9	22.3
	<hr/>	<hr/>	<hr/>
	642.9	590.9	395.3
<b>Expenses</b>			
Products and services sold			
Nuclear	269.8	279.7	177.7
Gold	46.3	18.5	12.5
	<hr/>	<hr/>	<hr/>
	316.1	298.2	190.2
<b>Depreciation, depletion and reclamation</b>			
Nuclear	97.8	87.6	62.4
Gold	24.9	7.4	5.1
	<hr/>	<hr/>	<hr/>
	122.7	95.0	67.5
<b>Exploration</b>			
Nuclear	14.5	10.6	5.6
Gold	17.5	18.6	11.4
<b>Research and development</b>			
Nuclear	1.9	3.3	1.6
	<hr/>	<hr/>	<hr/>
	33.9	32.5	18.6
<b>Segmented earnings from operations</b>			
Nuclear	155.7	179.8	125.7
Gold	14.5	(14.6)	(6.7)
	<hr/>	<hr/>	<hr/>
	170.2	165.2	119.0
Non-segmented expenses	19.2	19.9	15.2
<b>Earnings from operations</b>	<b>151.0</b>	<b>145.3</b>	<b>103.8</b>
Other income (expense)	(3.9)	(2.5)	1.8
Income taxes	(65.1)	(5.3)	(3.5)
<b>Net earnings</b>	<b>\$ 82.0</b>	<b>\$ 137.5</b>	<b>\$ 102.1</b>
<b>Assets</b>			
Nuclear	\$ 1,802.6	\$ 1,412.7	\$ 1,391.7
Gold	468.1	365.9	275.7
	<hr/>	<hr/>	<hr/>
	<b>\$ 2,270.7</b>	<b>\$ 1,778.6</b>	<b>\$ 1,667.4</b>
<b>Capital expenditures for the year</b>			
Nuclear	\$ 276.2	\$ 68.9	\$ 76.9
Gold	31.5	86.5	99.4
	<hr/>	<hr/>	<hr/>
	<b>\$ 307.7</b>	<b>\$ 155.4</b>	<b>\$ 176.3</b>

## Notes to Consolidated Financial Statements

(b) Geographic Segments	1997	1996 (Millions)	1995
<b>Revenue from products and services</b>			
Canada - domestic	\$ 39.1	\$ 43.9	\$ 28.0
- export	491.0	539.1	358.9
United States	32.1	1.8	1.9
Central Asia	80.7	6.1	6.5
	<b>\$ 642.9</b>	<b>\$ 590.9</b>	<b>\$ 395.3</b>
<b>Segmented earnings from operations</b>			
Canada	\$ 147.5	\$ 166.8	\$ 114.9
United States	(6.6)	(3.0)	(2.5)
Central Asia	29.3	1.4	6.6
	<b>\$ 170.2</b>	<b>\$ 165.2</b>	<b>\$ 119.0</b>
<b>Assets</b>			
Canada	\$ 1,539.6	\$ 1,406.9	\$ 1,398.7
United States	275.4	26.4	19.7
Central Asia	455.7	345.3	249.0
	<b>\$ 2,270.7</b>	<b>\$ 1,778.6</b>	<b>\$ 1,667.4</b>

Total assets includes expenditures on non-producing development properties.

### (c) Major Customers

Cameco relies on a small number of customers to purchase a significant portion of its uranium concentrates and uranium conversion services. Cameco is currently the only commercial supplier of UO<sub>2</sub> for use in Canadian Candu heavy water reactors. Cameco's largest customer purchased approximately 61% of its commercial UO<sub>2</sub> production in 1997.

During 1997, sales to any one customer did not exceed 10% of revenue. During 1996, sales to one major electric generating utility accounted for 10.6% of total uranium revenue. As customers are relatively few in number, accounts receivable from any individual customer may periodically exceed 10% of accounts receivable depending on delivery schedules. During 1995, sales to any one customer did not exceed 10% of revenue.

## 26. Comparative Figures

Certain of the 1996 and 1995 balances have been reclassified to conform to the current financial statement presentation.

## 27. Generally Accepted Accounting Principles in Canada and the United States

The consolidated financial statements of Cameco are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles (GAAP), and conform, in all material respects, with those generally accepted in the United States except as described below:

### (a) Income Taxes

Cameco follows the deferral method of accounting for income taxes in accordance with Canadian GAAP which relates the provision for income taxes to the accounting income for the period. Under the deferral method, the amount by which the tax provision differs from the amount of tax currently payable is considered to represent the deferral to future periods of benefits obtained or expenditures incurred in the current period and accordingly is computed at current tax rates. The accumulated tax allocation debit or credit is not adjusted to reflect subsequent changes in tax rates. In the United States, statement of financial accounting

## Notes to Consolidated Financial Statements

standards no. 109 accounting for income taxes (SFAS 109) requires the use of the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred taxes are recognized for the future tax consequences attributable to tax assets and liabilities measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is included in earnings in the period that includes the enactment date.

Under SFAS 109, a deferred tax asset or liability is recognized for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a purchase business combination. Under Canadian GAAP, the carrying value of the related asset or liability is adjusted for such future tax effects.

The application of US GAAP would have the following effect on the net earnings as reported:

	<b>1997</b>	<b>1996</b> (Thousands)	<b>1995</b>
Net earnings for the year as reported in accordance with Canadian GAAP	\$ 81,979	\$ 137,533	\$ 102,085
Application of asset and liability method of accounting for income taxes	<u>(7,800)</u>	<u>(68,100)</u>	<u>(1,197)</u>
Net earnings for the year in accordance with US GAAP	\$ 74,179	\$ 69,433	\$ 100,888
Net earnings per common share in accordance with US GAAP	\$ 1.36	\$ 1.31	\$ 1.93

The application of US GAAP would have the following effect on the consolidated balance sheets as reported:

	<b>1997</b>	<b>1996</b> (Thousands)	<b>1995</b>
Total assets, as reported	\$ 2,270,702	\$ 1,778,582	\$ 1,667,350
Increase in property, plant and equipment	15,157	—	—
Net increase in deferred tax values	—	7,800	75,900
Total assets, US GAAP	\$ 2,285,859	\$ 1,786,382	\$ 1,743,250
Total liabilities, as reported	\$ 578,469	\$ 358,910	\$ 365,693
Net decrease in deferred tax values	15,157	—	—
Total liabilities, US GAAP	\$ 593,626	\$ 358,910	\$ 365,693
Shareholders' equity, as reported	\$ 1,692,233	\$ 1,419,672	\$ 1,301,657
Increase in equity	—	7,800	75,900
Shareholders' equity, US GAAP	\$ 1,692,233	\$ 1,427,472	\$ 1,377,557

## Notes to Consolidated Financial Statements

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	1997	1996 (Thousands)	1995
Deferred tax assets (liabilities):			
Property, plant and equipment	\$ (80,580)	\$ (5,548)	\$ 75,144
Provision for reclamation	35,034	29,324	25,455
Foreign exploration and development	28,801	10,938	9,504
Other	7,893	6,311	4,240
Inventories	(63,355)	(33,225)	(38,443)
Net deferred tax values under US GAAP	<u>(72,207)</u>	7,800	75,900
Liability recorded under Canadian GAAP	57,050	—	—
Net increase (decrease) in deferred tax values	<u>\$ (15,157)</u>	\$ 7,800	\$ 75,900

### (b) Accounting for Stock-Based Compensation

Statement of financial accounting standards no. 123, accounting for stock-based compensation (SFAS 123) was issued in 1995 by the Financial Accounting Standards Board. SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues equity instruments to acquire goods or services from non-employees. This statement defines a fair value based method of accounting for employee stock options or similar equity instruments. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB opinion no. 25, accounting for stock issued to employees which is similar to the method applied under Canadian GAAP. Cameco currently accounts for its stock compensation plans using the accounting prescribed by APB opinion no. 25. Cameco has utilized an option pricing model to estimate the fair value of options granted assuming an option life of 10 years, a risk free interest rate of 6%, a dividend yield of 1% and a volatility factor of 33%.

If the fair value based method of accounting had been applied under SFAS 123, pro-forma net earnings and earnings per share would have been as follows:

	1997	1996 (Thousands)	1995
Net earnings for the year in accordance with US GAAP as calculated above	\$ 74,179	\$ 69,433	\$ 100,888
Effect of recording compensation expense under stock option plans	<u>(4,914)</u>	(3,887)	(3,551)
Pro-forma net earnings after application of SFAS 123	<u>\$ 69,265</u>	\$ 65,546	\$ 97,337
Pro-forma net earnings per common share after application of SFAS 123	\$ 1.21	\$ 1.24	\$ 1.86

## Summary of Significant Accounting Policies

The consolidated financial statements are prepared by management in accordance with accounting principles generally accepted in Canada and, except as described in note 27, conform in all material respects with accounting principles generally accepted in the United States. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the disclosure of commitments and contingencies. Changes in estimates and assumptions will occur based on the passage of time and the occurrence of certain future events. This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements and is presented to assist the reader in interpreting the statements contained herein.

### Consolidation Principles

The consolidated financial statements include the accounts of Cameco and its subsidiaries. Interests in joint ventures are accounted for by the proportionate consolidation method. Under this method, Cameco includes in its accounts the company's proportionate share of assets, liabilities, revenues and expenses. Investments in associated companies over which Cameco has the ability to exercise significant influence are accounted for by the equity method. Under this method, Cameco includes in earnings its share of earnings or losses of the associated company.

### Inventories

Inventories of broken ore, uranium concentrates and refined and converted products are valued at the lower of average cost and net realizable value. Cost for customer-owned conversion inventories is the cost of the refining and conversion processes.

### Supplies

Consumable supplies and spares are valued at the lower of weighted average cost or replacement value.

### Property, Plant and Equipment

Assets are carried at cost. Costs of additions and improvements are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings. Maintenance and repair expenditures are charged to cost of production. The carrying values of property, plant and equipment are periodically assessed by management and if management determines that the carrying values cannot be recovered, the unrecoverable amounts are written off against current earnings.

### Non-Producing Properties

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project area are deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation or depletion is charged against the property until commercial production commences. After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining reserves.

The carrying values of non-producing properties are periodically assessed by management and if management determines that the carrying values cannot be recovered, the unrecoverable amounts are written off against current earnings.

### Capitalization of Interest

Interest is capitalized on expenditures related to construction or development projects actively being prepared for their intended use. Capitalization is discontinued when the asset enters commercial operation or development ceases.

### Depreciation and Depletion

Conversion services assets, mine buildings, equipment and mineral properties are depreciated or depleted according to the unit-of-production method. This method allocates the costs of these assets to each accounting period. For conversion services, the amount of depreciation is measured by the portion of the facilities' total estimated lifetime production that is produced in that period. For mining, the amount of depreciation or depletion is measured by the portion of the mines' economically recoverable proven and probable ore reserves which are recovered during the period.

Other assets are depreciated according to the straight-line method based on estimated useful lives which range from three to 10 years.

## Summary of Significant Accounting Policies

### Research and Development and Exploration Costs

Expenditures for applied research and technology related to the products and processes of Cameco and expenditures for geological exploration programs are charged against earnings as incurred.

### Environmental Protection and Reclamation Costs

Expenditures relating to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and depreciated depending on their relationship to future earnings. The estimated costs for decommissioning and reclaiming producing resource properties are accrued and charged to operations according to the unit-of-production method. Actual costs of decommissioning and reclamation are deducted against this accrual. Cameco's estimates of reclamation costs could change as a result of changes in regulatory requirements and cost estimates.

### Post-Employment Benefits

Cameco accrues for all post-employment benefits over the estimated service life of the employees.

### Sales of Products and Services

In accordance with normal industry practices, Cameco contracts for future delivery of mine concentrates and conversion services. Sales revenue is recorded in the period that title passes or, with customer-owned material, when delivery is effected.

### Amortization of Financing Costs

Debt discounts and issue expenses associated with long-term financing are deferred and amortized over the term of the issues to which they relate.

### Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end rates of exchange. Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at rates in effect at the time of the transactions. The applicable exchange gains and losses arising on these transactions are reflected in earnings.

Foreign currency gains or losses arising on translation of long-term monetary items with a fixed or ascertainable life beyond the end of the following fiscal year are deferred and amortized to earnings over the remaining life of the item.

The United States dollar is considered the functional currency of Cameco's uranium operations in the United States and gold operations in Kyrgyzstan. The financial statements of these operations are translated into Canadian dollars using the current rate method whereby all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange prevailing during the year. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on Cameco's net investment in these foreign operations, are recorded in the cumulative translation adjustment component of shareholders' equity. Exchange gains or losses arising from the translation of foreign debt designated as a hedge of a net investment in foreign operations are also recorded in the cumulative translation adjustment component of shareholders' equity. Exchange gains or losses arising from the translation of foreign debt designated as a hedge of a net investment in foreign operations are also recorded in the cumulative translation adjustment component of shareholders' equity. These adjustments are not included in earnings until realized through a reduction in Cameco's net investment in such operations.

### Derivative Financial Instruments and Hedging Transactions

Cameco utilizes derivative financial and commodity instruments to reduce exposure to fluctuations in foreign currency exchange rates and commodity prices. Gains and losses related to derivatives that are hedges are deferred and recognized in the same period as the corresponding hedged positions. If derivative financial instruments are closed before planned delivery, gains or losses are recorded as deferred revenue and recognized on the planned delivery date.

A derivative must be designated and effective to be accounted for as a hedge. Effectiveness is achieved if the cash flows or fair values of the derivative substantially offset the cash flows of the hedged position and the timing is similar.

Premiums paid or received with respect to derivatives are deferred and amortized to earnings over the term of the hedge.

### Per Share Amounts

Earnings per common share and cash from operations per common share are calculated using the weighted average number of paid common shares outstanding.

## Five Year Financial Data

(expressed in thousands of Canadian dollars except share amounts)

<b>Earnings</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
Revenues	\$ 642,945	\$ 590,861	\$ 395,271	\$ 347,685	\$ 305,846
Expenses					
Products and services sold	316,108	298,205	190,210	175,040	146,700
Depreciation, depletion and reclamation	122,676	94,974	67,481	57,517	58,032
Administration, research & development	29,106	26,589	21,246	17,847	12,945
Exploration	32,023	29,223	16,991	11,890	9,753
Interest	(7,962)	(3,396)	(4,412)	823	2,267
	491,951	445,595	291,516	263,117	229,697
Earnings from operations	150,994	145,266	103,755	84,568	76,149
Other income (expense)	(3,958)	(2,422)	1,858	(327)	25
Earnings before income taxes and minority interest	147,036	142,844	105,613	84,241	76,174
Income taxes	65,057	5,311	3,528	3,083	2,833
Minority interest	—	—	—	14	305
Net earnings	\$ 81,979	\$ 137,533	\$ 102,085	\$ 81,144	\$ 73,036
Retained earnings at beginning of year	\$ 440,206	\$ 329,131	\$ 253,261	\$ 198,154	\$ 151,127
Dividends	(27,577)	(26,458)	(26,215)	(26,037)	(26,009)
Retained earnings at end of year	\$ 494,608	\$ 440,206	\$ 329,131	\$ 253,261	\$ 198,154

### Financial Position

Current assets	\$ 557,799	\$ 355,134	\$ 345,801	\$ 229,866	\$ 247,206
Property, plant and equipment	1,342,728	1,202,557	1,115,785	997,581	972,821
Long-term receivables and investments	188,696	106,741	72,637	20,756	20,643
Inventories	181,479	114,150	133,127	178,559	110,202
Total assets	\$ 2,270,702	\$ 1,778,582	\$ 1,667,350	\$ 1,426,762	\$ 1,350,872
Current liabilities	\$ 285,231	\$ 84,022	\$ 97,369	\$ 63,818	\$ 48,882
Long-term debt	129,065	200,018	196,462	61,568	74,927
Provision for reclamation	87,976	64,171	57,338	52,092	48,198
Other liabilities	19,147	10,699	14,524	28,912	9,993
Deferred income taxes	57,050	—	—	—	—
Minority interest	—	—	—	—	5,825
Shareholders' equity	1,692,233	1,419,672	1,301,657	1,220,372	1,163,047
Total liabilities and shareholders' equity	\$ 2,270,702	\$ 1,778,582	\$ 1,667,350	\$ 1,426,762	\$ 1,350,872
Long-term debt (% of capital employed)	6.5%	11.8%	12.5%	4.5%	5.8%
Current ratio	2.0:1	4.2:1	3.6:1	3.6:1	5.1:1
Long-term debt/equity ratio	.08:1	.14:1	.15:1	.05:1	.06:1

## Five Year Financial Data

(expressed in thousands of Canadian dollars except share amounts)

Cash Flows	1997	1996	1995	1994	1993
Cash provided by operations	\$ 162,106	\$ 177,903	\$ 132,521	\$ 176,079	\$ 127,067
Cash used in investing activities	(324,845)	(162,053)	(252,482)	(106,467)	(63,012)
Cash provided by (used in) financing	257,858	(15,889)	114,143	(42,321)	(115,894)
Increase (decrease) in cash during the year	95,119	(39)	(5,818)	27,291	(51,839)
Cash at beginning of year	14,603	14,642	20,460	(6,831)	45,008
Cash at end of year	\$ 109,722	\$ 14,603	\$ 14,642	\$ 20,460	\$ (6,831)

### Per Common Share

Earnings from operations	\$ 2.77	\$ 2.75	\$ 1.98	\$ 1.63	\$ 1.47
Net earnings	1.51	2.60	1.95	1.56	1.41
Cash provided by operations	2.98	3.37	2.53	3.38	2.45
Dividends paid	0.50	0.50	0.50	0.50	0.50
Weighted average number of paid common shares	54,413,333	52,833,746	52,359,946	52,034,234	51,942,990

### Shareholders' Data

Number of common shares outstanding	57,445,444	53,175,458	52,652,945	52,261,847	52,046,948
Market price (TSE) - high	60.00	76.25	51.75	31.13	28.50
- low	40.00	50.38	29.50	21.75	17.00
- close	46.40	54.90	50.63	31.13	28.50

### Production Data

Uranium concentrates (lbs U <sub>3</sub> O <sub>8</sub> )	19,257,000	16,560,000	15,160,000	13,991,000	13,221,000
Uranium conversion (tU)	12,594	10,127	10,552	9,490	7,853
Gold (oz)	202,454	40,375	31,623	—	—
Average uranium spot price for the year (\$US/lb U <sub>3</sub> O <sub>8</sub> )	\$ 12.04	\$ 15.54	\$ 11.46	\$ 9.31	\$ 9.98
Employees at year end	2,469 <sup>1</sup>	1,350	1,237	1,191	1,133

<sup>1</sup> Includes Cameco's subsidiaries.

## Glossary

### Candu

Canada, Deuterium, Uranium. Canadian designed and built pressure tube nuclear reactor which uses natural uranium as fuel and heavy water (deuterium oxide) as the moderator.

### Dose

Term used to quantify the amount of energy absorbed from ionizing radiation per unit mass.

### Enriched uranium

Uranium in which the content of the isotope uranium-235 has been increased above its natural value of 0.7% by weight. Typical low-enriched uranium for commercial power reactors is enriched in uranium-235 to the range of 3% to 5%. In highly enriched uranium, the uranium-235 has been increased to 20% or more.

### In situ uranium leaching

A process involving pumping a solution down an injection well where it flows through the deposit, dissolving uranium. The uranium-bearing solution is pumped to surface where the uranium is recovered from the solution.

### Light-water reactor

A thermal reactor using ordinary water both as a moderator and as a coolant with enriched uranium as fuel.

### Ounce (oz)

All ounces in this report are troy ounces.

### Spot market

The buying and selling of uranium products for delivery within one year.

### Spot market price

Price for product sold or purchased in the spot market rather than under long-term contract.

### t

Tonne (metric ton)

### T

Ton (short ton)

### UO<sub>2</sub>

Uranium dioxide. Converted from UO<sub>3</sub> at Cameco's Port Hope plant, then compressed to pellets and sintered by fuel fabricators to make fuel for Candu reactors.

### UO<sub>3</sub>

Uranium trioxide. An intermediate product produced at Cameco's Blind River refinery and used as feed to produce UO<sub>2</sub> and UF<sub>6</sub> at Cameco's Port Hope conversion plants.

### U<sub>3</sub>O<sub>8</sub>

Triuranium octoxide. At Cameco operations, it is in the form of concentrate, often called yellowcake.

### UF<sub>6</sub>

Uranium hexafluoride. Converted from UO<sub>3</sub> at Cameco's Port Hope plant. Following enrichment, UF<sub>6</sub> is converted to enriched UO<sub>2</sub> suitable for fabrication into fuel for light-water reactors.

### Western World Uranium Market

Western world includes Argentina, Australia, Belgium, Brazil, Canada, Czech Republic, Finland, France, Gabon, Germany, India, Indonesia, Japan, Mexico, Namibia, Netherlands, Niger, Pakistan, Philippines, Portugal, Romania, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom and the United States.

## Conversion Factors

Weights and measures are indicated in the unit most commonly used in specific areas of the industry. These are noted with \* and conversion factors are provided below.

Take This:	*cm	*km	*oz	t	*T	*oz/T	*lb U <sub>3</sub> O <sub>8</sub>	tU	*% U <sub>3</sub> O <sub>8</sub>
Do This:	÷ 2.54	÷ 1.6093	× 31.1035	× 1.102	× 0.9072	× 34.286	÷ 2599.8	× 2599.8	÷ 1.17924
To Obtain This:	= inch	= mile	= g	= T	= t	= g/t	= tU	= lb U <sub>3</sub> O <sub>8</sub>	= % U

## Reserves

### Reserves

That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves can be either proven or probable. (This relates to operating mines and properties at the development or pre-development stage, based on a positive feasibility study. These reserves include material in place and on stockpiles with allowances for mining recovery, dilution and leachability.)

#### Proven Reserves

Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of reserves are well established. (They include the broken material on stockpiles.)

#### Probable Reserves

Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

## Resources

### Resources

Resources are the estimated quantity, grade and/or quality of mineralization that is of potential economic merit. A resource estimate does not require specific mining, metallurgical, environmental, price and cost data, but the nature and continuity of mineralization must be understood. Resources can be either indicated or inferred. They are a potential from which reserves could be defined.

#### Indicated Resources

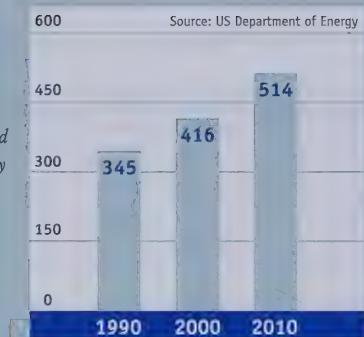
Indicated resources are the estimated quantity, grade and/or quality of part of a mineralized body for which the continuity of grade and/or quality, together with the extent and shape, are so well established that a reliable grade and tonnage estimate can be made for a deposit of potential economic merit. Fundamental to the indicated resource class is a well-established indication of the geological continuity of the zones of mineralization.

#### Inferred Resources

Inferred resources are estimated quantity, grade and/or quality of a mineralized body, or a part thereof, that is determined on the basis of limited sampling, but where there is sufficient geological information and a reasonable understanding of the continuity and distribution of mineralization to outline a deposit of potential economic merit.

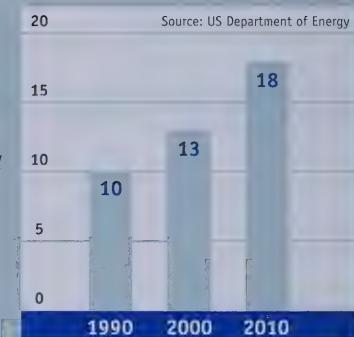
### World Energy Consumption (quadrillion Btu)

*The world's increasing demand for energy is likely to continue.*



### World Electricity Consumption (trillion KWh)

*The world's increasing demand for electricity provides a market for new reactors.*



### Electrical Power Plant Construction

	Capital Cost (\$/KW)	Project Time (years)
Gas	500-700	3
Coal	900-1,300	5-7
Nuclear	2,000-2,500	8-9

Source: Prospects and Strategies for Nuclear Power

### Electrical Power Plant Fuel Costs

	Share of Unit Production Costs
Gas	70% to 80%
Fossil fuel	40% to 60%
Nuclear	15% to 25%

Source: Atomic Energy of Canada Limited

### Energy Source Advantages and Disadvantages

#### Commodity

#### Advantages

#### Disadvantages

Oil - easy to use and transport

- creates environmental pollution

Coal - low generating costs  
- plentiful supplies  
- baseload coal plants can run around the clock

- creates air pollution  
- produces ash that must be disposed of

Hydropower - no pollution

- can require modification or destruction of ecosystems  
- virtually all potential hydro locations are already developed

Nuclear - does not produce air or water pollution  
- low generating costs - comparable to coal  
- baseload plants can run around the clock

- produces radioactive waste requiring carefully controlled disposal

Natural Gas - currently inexpensive

- supply and price can fluctuate  
- produces air pollution, though less than some other sources

Solar - inexhaustible supply  
- no pollution  
- can be cost-effective way to heat individual buildings

- large-scale projects require much land  
- requires expensive photovoltaic cells  
- too small-scale for urban areas

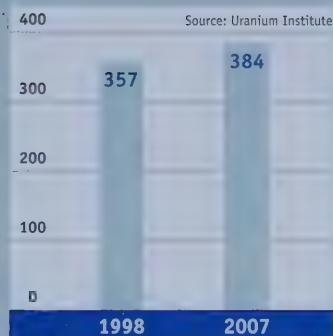
Wind - inexhaustible supply  
- no pollution

- wind doesn't always blow when electricity demands are high  
- extremely noisy  
- too small-scale for urban areas

Source: Nuclear Energy Institute

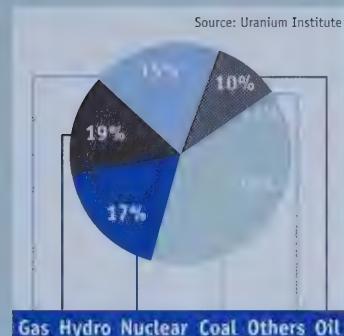
## Nuclear Capacity GWe

Nuclear power is expected to increase by 8% over the next decade.



## World Electricity Generation (1996)

Nuclear energy accounts for 17% of the world's electricity demand.



## Nuclear Reactors

	Reactors <sup>1</sup> in operation	Reactors <sup>1</sup> under construction	Nuclear <sup>2</sup> electricity (%)	Uranium <sup>3</sup> requirements (000s lbs U <sub>3</sub> O <sub>8</sub> )
Argentina	2	1	11.4	330
Armenia	1	0	36.7	148
Belgium	7	0	57.2	2,766
Brazil	1	1	0.7	187
Bulgaria	6	0	42.2	1,315
Canada	15	0	16.0	4,628
China	3	4	1.3	991
Czech Republic	4	2	20.0	2,423
Finland	4	0	28.1	1,300
France	58	1	77.4	31,005
Germany	19	0	30.3	9,614
Hungary	4	0	40.8	926
India	9	6	2.2	676
Japan	53	1	33.4	18,674
Kazakhstan	1	0	0.2	<1
Korea (South)	12	6	36.3	5,876
Lithuania	2	0	83.4	1,004
Mexico	2	0	5.1	567
Netherlands	1	0	4.8	300
Pakistan	1	1	0.6	34
Romania	1	0	1.8	221
Russia	29	3	13.1	9,949
Slovakia	4	2	44.5	853
Slovenia	1	0	37.9	338
South Africa	2	0	6.3	775
Spain	9	0	32.0	3,637
Sweden	12	0	52.4	4,027
Switzerland	5	0	44.5	1,586
Taiwan	6	0	29.0	2,418
Ukraine	14	2	43.8	4,599
United Kingdom	35	0	26.0	6,497
United States	106	0	21.9	49,200
<b>Total</b>	<b>429</b>	<b>30</b>		<b>166,863</b>

Source: The Uranium Institute

<sup>1</sup> At December 31, 1997

<sup>2</sup> 1996

<sup>3</sup> 1997



## Directors

Left to right:

**John R. McCaig** <sup>4,5</sup> Calgary, Alberta; Chair, Trimac Corporation

**Robert T. F. Reid** <sup>1,5</sup> Toronto, Ontario; President and Chief Executive Officer, Union Gas Limited

**George S. Dembroski** <sup>1, 4, 5</sup> Toronto, Ontario; Corporate Director

**Harry D. Cook** <sup>3</sup> La Ronge, Saskatchewan; Chief, Lac La Ronge Indian Band; President, Kitsaki Development Corporation

**Justus Dornier** <sup>3</sup> Zurich, Switzerland; Nuclear Physicist; Chair, Trans-Finanz Holdings Ltd. (financial holding company)

**James R. Curtiss** <sup>3</sup> Washington, D.C.; Lawyer, Partner, Winston & Strawn

**Robert W. Peterson** <sup>2,3</sup> Regina, Saskatchewan; President and Chief Operating Officer, Denro Holdings Ltd.

**Kim Thorson** <sup>2,4</sup> Weyburn, Saskatchewan; Lawyer

**Allan E. Blakeney** <sup>1, 2, 3, 4, 5</sup> Saskatoon, Saskatchewan; Former Premier of Saskatchewan

**Nancy E. Hopkins** <sup>2,4</sup> Saskatoon, Saskatchewan; Lawyer, Partner, Gauley & Co.

**Bernard M. Michel** <sup>1</sup> Saskatoon, Saskatchewan; Chair, President and Chief Executive Officer, Cameco Corporation

**Richard B. Baltzan** <sup>1,2</sup> Saskatoon, Saskatchewan; Physician, Member of Executive Committee, Chair of Finance Committee and President Elect of the Royal College of Physicians and Surgeons of Canada  
**Committee Members:**

<sup>1</sup> Executive <sup>2</sup> Audit <sup>3</sup> Environmental and Safety <sup>4</sup> Compensation and Human Resources

<sup>5</sup> Nominating and Corporate Governance



## Officers

Left to right:

**Gary M. S. Chad** Senior General Counsel and Secretary

**Bernard M. Michel** Chair, President and Chief Executive Officer

**David M. Petroff** Senior Vice-President, Finance and Administration and Chief Financial Officer

**Rita M. Mirwald** Senior Vice-President, Human Resources and Corporate Relations

**Josef Spross** Senior Vice-President, Operations and Chief Operating Officer

**Gerald W. Grandey** Executive Vice-President

# investor information

## Shares Listed

The Toronto Stock Exchange  
The Montreal Exchange  
New York Stock Exchange, Inc.

## Stock Symbol

CCO (TSE, ME)  
CCJ (NYSE)

## Transfer Agent

Contact the transfer agent for information on share holdings, dividend cheques, lost share certificates and address changes.  
CIBC Mellon Trust Company  
1080-2002 Victoria Avenue  
Regina, Saskatchewan S4P OR7

Telephone: (306) 751-7550  
Facsimile: (306) 751-7552

## Annual Meeting

The annual meeting of shareholders of Cameco Corporation is scheduled to be held Friday, May 1, 1998 at 1:30 pm at the Sheraton Cavalier Hotel, Saskatoon, Saskatchewan.

## Dividend Policy

The board of directors has established a dividend policy of paying quarterly dividends of \$0.125 (\$0.50 per year) per common share. This policy will be reviewed from time to time in light of the company's cash flow, earnings, financial position and other relevant factors.

## Investor Inquiries

Cameco Corporation  
Investor and Corporate Relations Department  
2121-11th Street West  
Saskatoon, Saskatchewan S7M 1J3  
  
Telephone: (306) 956-6400  
Facsimile: (306) 956-6318  
Web address: [www.cameco.com](http://www.cameco.com)



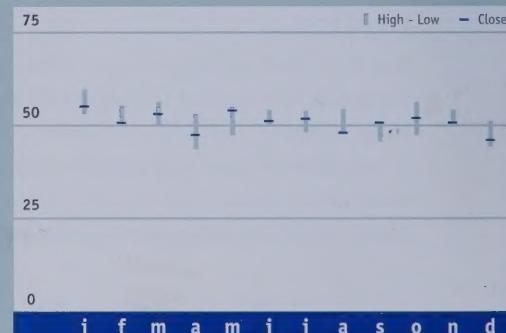
**TSE Metals and Minerals Index vs Cameco Share Price**  
(annual % change compared to 1991)

*Cameco's shares continued to outperform the TSE metals and minerals index.*



**Monthly Share Volume TSE**  
(thousands of shares)

*In 1997, 33 million Cameco shares traded on the TSE.*



**Monthly Share Price TSE**

*Cameco's shares traded between \$40 and \$60 during 1997.*

## December 31, 1997

Shares outstanding	57.4 million
Market capitalization	\$2.7 billion

## Vision

Cameco is a unique and successful international company.

Our core business is uranium production and the supply of services to the nuclear industry. We are committed to providing, on a long-term basis, outstanding value to our customers.

As an integrated leader in the nuclear industry and a recognized gold producer, we find and develop quality mineral deposits. We achieve excellence in our operations, in the protection of the environment, in the health and safety of our employees and in the development of our human resources.

Cameco earns the support of the communities with which it interacts.

Cameco achieves sustainable growth and profitability through ethical business conduct and, by so doing, will continue to be an investment and employer of choice, providing outstanding value to our shareholders and a rewarding workplace for our employees.

## Values

**EXCELLENCE** Cameco pursues excellence in all undertakings. We value people who strive to produce work of the highest quality. We encourage creativity, innovation and an attitude of continuous improvement.

**PEOPLE** Cameco values the contribution of every employee. We seek strong relationships based on honest communications with employees and their families, customers, shareholders and suppliers.

**INTEGRITY** Cameco seeks to earn the respect of all people with whom it interacts. We inspire trust based on honest, fair and ethical behavior.

**ENVIRONMENT** Cameco's operations provide a safe human and physical environment. We are committed to exemplary practices that promote the health of employees, safeguard the environment and allow us to return the sites of our operations to their natural conditions.

*Back cover: Gold mining is under way in the Kumtor open pit behind Josef Spross, Cameco's senior vice-president, operations and chief operating officer.*

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